

Algeria	100.00	Algeria	100.00
Argentina	100.00	Algeria	100.00
Australia	100.00	Algeria	100.00
Belgium	100.00	Algeria	100.00
Brazil	100.00	Algeria	100.00
Canada	100.00	Algeria	100.00
France	100.00	Algeria	100.00
Germany	100.00	Algeria	100.00
Italy	100.00	Algeria	100.00
Japan	100.00	Algeria	100.00
South Korea	100.00	Algeria	100.00
Spain	100.00	Algeria	100.00
Sweden	100.00	Algeria	100.00
Switzerland	100.00	Algeria	100.00
Taiwan	100.00	Algeria	100.00
UK	100.00	Algeria	100.00
USA	100.00	Algeria	100.00
West Germany	100.00	Algeria	100.00
Yugoslavia	100.00	Algeria	100.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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Monday March 12 1990

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World News

Israeli ruling coalition near collapse over peace talks

Israel's Government partners, Likud and Labour, are near to breaking up their coalition after failing to approve US proposals for Israeli-Palestinian negotiations.

When Premier Yitzhak Shamir again refused to put to a vote the US formula on talks without attaching conditions, Labour leader Shimon Peres and five colleagues walked out of a 12-man inner cabinet meeting. Page 16

Aylin sworn in
Patricio Aylin was sworn in for a four-year term as Chile's first elected president after more than 16 years of right-wing military rule under Gen Augusto Pinochet, who lost a landslide last October. Page 5, Observer, Page 14

Thatcher under fire
UK ministers continued to try and calm Conservative party nerves, damp speculation about Mrs Margaret Thatcher's leadership and to quash talk of any challenge to her position following suggestions that a number of Tory MPs want her to step down before the next general election. Page 6

Romanian protests
Anti-government protesters demanding the removal of all Communist and secret police influence in Romania demonstrated in Bucharest and two provincial cities. Page 2

Swedish industry
The Swedish Government has unveiled a strategy promising more active state intervention in industrial restructuring through a state holding company to include Sweden's seven publicly owned industrial enterprises. Page 4

Sudanese amnesty
Sudan's military junta has released 21 trade union officials from detention and said all political prisoners except those facing corruption charges would be freed soon.

Arab League move
The Arab League is to move its headquarters back to Cairo. It moved to Tunis in 1979 after Egypt signed a peace treaty with Israel. Page 3

Soviet withdrawal
Soviet troops will start leaving Hungary today under a timetable for full withdrawal that front-running opposition parties say they want to speed up after Hungary's first free elections. Page 2

Beirut car bomb
About 20 people were wounded when a hooby-trapped car exploded near a Syrian military base in a densely populated residential area of west Beirut.

Communist change
After four days of emotional debate the Italian Communist Party, the biggest in the Western world, voted overwhelmingly for a radical transformation into a new social democratic mass movement. Page 4

Ten dead in Haiti
Ten people were reported killed and 100 injured in violence in Haiti amid reports that Gen Prosper Avril was preparing to leave the country, following his resignation as president. Civilian leaders to be named today. Page 5

Mongolian rally
Thousands of Mongolian communists staged their first rally in Ulan Bator, criticising newly formed opposition movements as undemocratic and calling two of their leaders traitors.

Catholic shot dead
A Roman Catholic man was shot dead in west Belfast by gunmen in a hijacked car.

Trafficants hanged
Iran hanged 39 drug traffickers in 12 cities bringing the total executions for narcotics-related crimes this year to 100.

Business Summary

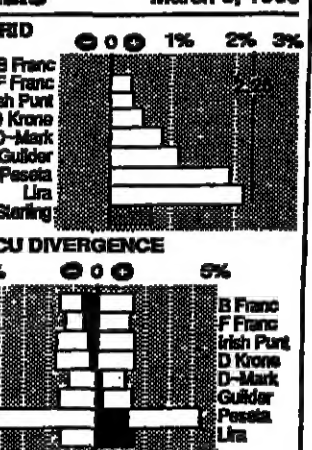
Brady backs co-ordinated supervision of markets

More co-ordinated regulation of US stock and futures markets is being considered by a high-level working group of the Bush Administration with Treasury Secretary Nicholas Brady presiding for these markets to be supervised as a single entity.

A letter to the leading members of the securities sub-committee of the Senate Banking Committee, setting out the main Brady options, became public over the weekend. Page 16

EUROPEAN Monetary System
The weakness of the D-Mark and the return to favour of the dollar kept the EMS quiet last week. The Italian lira maintained its position as the strongest member of the system and at times threatened to move above its cross rate limit against the weaker currencies. The Bank of Italy took the opportunity to increase its reserves of D-Marks and gave some support to the relatively weak French franc. CURRENCY, Page 27

EMS March 9, 1990



KEY: □ US Dollar, ■ ECU Daily, ● Day Position

The chart shows the constraints on EMS exchange rates. The upper grid, based on the system's weakest currency, defines the cross-rates from which only the peseta may move by more than 2.5 per cent. The lower chart gives currencies' divergences from a central rate against the ECU.

AMAX Gold, an 87 per cent-owned subsidiary of Amstar, third largest US aluminium manufacturer, is paying \$1.5m cash for the 40 per cent of the Hayden Hill Gold Venture in California it did not own. Page 20

STERLING: The Bank of England sold up to \$500m of reserves last Friday and is prepared to intervene in support of the pound if the currency comes under renewed selling pressure this week. Page 16, Currencies, Page 27

ABBOTT Laboratories: A long-suffering boardroom row has flared at Abbott Laboratories, Chicago-based US healthcare group and super performer on Wall Street. Page 19

KOKUBAI Kogyo: Some 1000 employees of the Japanese aerial survey operator threatened to strike unless Mitsubishi Kotani, the biggest shareholder and a stock market speculator, resigns. Page 18

JOHN Brown Engineering snatched a \$48m (\$77m) gas turbine contract from GEC-Alsthon, the favourite until late last month, to win the order from China Light and Power of Hong Kong. Page 5

MEXICAN inflation was 2.3 per cent in February, bringing the figure for the first two months of the year to 7.1 per cent, compared with a budgetary projection of 15.3 per cent for 1990. Page 5

MGM/UA: Giancarlo Piretti, Italian financier who on Wednesday will begin a \$1.25m cash tender offer for MGM/UA, Hollywood film and television studio, made a \$50m security deposit. Page 19

Lithuania declares formal independence from Moscow

By Quentin Peel and John Parker in Moscow

The Soviet republic of Lithuania last night declared its formal restoration of independence from the Soviet Union.

At the same time it appealed to western governments to confirm their recognition of its status as an independent state which was never legally incorporated into the USSR.

The republican parliament approved in principle a declaration that read: "The Supreme Soviet of Lithuania, expressing the will of the people, resolves and proclaims that the sovereign rights of the former Lithuanian state, occupied in 1940, are now reborn." Members of parliament renounced the Supreme Council instead of the Supreme Soviet by the declaration - supported the declaration by 124 to none, with six abstentions.

The move amounts to a fundamental challenge to Mr Mikhail Gorbachev, the Soviet leader, at a time when he is already struggling to impose his authority on a rebellious Communist Party and force through the creation of an executive presidency to stop the disintegration of the Soviet Union itself.

It comes on top of a comparable move to demand outright independence from the southern republic of Georgia, and rapid steps in that direction from the neighbouring Baltic republic of Estonia.

The Lithuanian parliament had already showed its determination to press for independence yesterday by electing Mr Vytautas Landsbergis as president of the assembly, and therefore of the republic - the first non-Communist to hold such a post in the Soviet Union. Mr Landsbergis, a 57-year-old professor of 20th-century Lithuanian musical history, is the leader of the independence movement Sajudis.

He was elected by 99 votes to 42 in a contest with Mr Algirdas Brazauskas, leader of the independent Lithuanian Communist Party, in the first test

of his election as Communist Party General Secretary, was delivered to an extraordinary plenary of the party's ruling central committee, which was intended to endorse new party rules - and confirm Mr Gorbachev as its candidate for the new post of executive president, to be created this week.

He called on the strident ranks of Communist Party leaders themselves to propose the necessary changes in the constitution this week which would "normalise equal possibilities for the Communist Party and other political and

social organisations to take part in political and legal affairs."

At the same time Mr Gorbachev proposed new party rules which would, in effect, destroy the tradition of "democratic centralism" by which the party leadership enforced unwavering obedience to the policy determined by the centre.

His speech came as pro-democracy radicals stepped up their attacks on the plans for a presidency, insisting that the Congress of People's Deputies, the country's supreme constitutional authority, had no mandate to consider such a sweeping change in the power

structure.

The position will give Mr Gorbachev far-reaching powers to declare a state of emergency, rule by decree, veto parliamentary legislation, and most critically, to distance himself from the political control of his own Communist Party.

The radical Inter-Regional Group of Deputies, led by Mr Boris Yeltsin, the leading rebel within the Communist Party, yesterday denounced the plan, insisting that a referendum be held first, and every union republic be consulted.

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Demonstrators wait outside the Lithuanian parliament in Vilnius for the result of a vote on whether the country should resume its independence from the Soviet Union

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Plans for E European development bank run into trouble

By William Dawkins in Paris

PLANS FOR a multinational bank to help east European countries build market economies suffered an unexpected setback at a weekend meeting in Paris of senior finance officials of the 41 eastern and western countries backing the scheme.

The meeting, which was supposed to agree on an outline constitution of the French-inspired European Bank for Reconstruction and Development, ended in disagreement on at least four important technical points.

Officials will meet bilaterally in the next few weeks and try to settle their differences at another unscheduled full session on April 9 and again in June if necessary.

Finance ministers from the countries involved were due to have completed the bank's statutes last month, but Mr Jacques Attali, French President Francois Mitterrand's special adviser, who chaired the session, insisted that it was still on target to start operations at the end of this year or early next.

"I am confident that the outstanding issues will be settled soon. We are on the road to a consensus," said Mr Attali.

There was broad agreement that the bank should have a capital of around Ecu10bn (\$12bn), more than the US, Japan and Britain had originally wanted. Officials also agreed on the bank's basic aim of ushering market economies into Eastern Europe, as well as on details of its structure, the division of capital, its organisation and relations with other financial institutions, said Mr Attali.

That included agreement that the European Community should hold 51 per cent of the capital and that the bank should lend to public infrastructure projects as well as to the private sector, as recommended by the EC but earlier rejected by Washington.

However, Mr Attali refused to confirm suggestions that loans to the public sector would be limited to 40 per cent of total lending.

Mr Attali admitted that "one of several areas of disagreement" was how much and under what conditions the Soviet Union, which will subscribe to the capital, would be allowed to borrow. Another was how to set the exchange

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Britain and EC allies ask Iraq to spare life of journalist

By Andrew Gowers, Middle East Editor, in London

THE UK Government and its European Community allies yesterday appealed to President Saddam Hussein of Iraq to spare the life of a British-based journalist sentenced to death in Iraq for espionage.

Britain's ambassador to Baghdad, Mr Harold Walker, delivered an urgent humanitarian appeal to the Iraqi leader from Prime Minister Margaret Thatcher for clemency for Farhad Bazraf, an Iranian-born journalist working for the London Observer newspaper.

Separately, a delegation of three EC ambassadors - from Ireland, France and Italy - lodged a similar plea at the Iraqi Foreign Ministry, which promised to pass on both as a matter of urgency.

Britain will today attempt to mobilise further international pressure on Iraq to commute the death sentence, both through the United Nations and through direct contacts with friendly governments. Officials said an appeal for help to the Soviet Union, an important ally of Iraq, would be considered today.

Mr Bazraf, 51, who is not a British citizen but was visiting Iraq on a UK travel document when he was arrested last September, was accused of spying for Israel and sentenced to death by the Baghdad Revolutionary Court on Saturday.

His arrest followed a visit to a secret military installation south of Baghdad. Mrs Daphne Parish, 53, a British nurse who took him to the site in her car, was also sentenced on Saturday to 15 years in jail.

British officials have expressed shock at the severity of the sentence. Mr William Waldegrave, the Junior Foreign Office minister, said on Saturday that Britain's relations with Iraq would suffer severe damage if the death sentence were carried out.

So far, the UK Government has not broken with a country Britain regards as an important power and a lucrative market in the Middle East - has been trying to keep its options open over the case.

It has decided not to withdraw its ambassador from Baghdad. It is possible the Government may send a high-level emissary to meet the Iraqi leader.

Lombard, Page 15; Justinian, Back Page, Section II

Westland helicopter group wins civil aircraft component orders

By Paul Betts, Aerospace Correspondent, in London

WESTLAND, the British helicopter group, will announce today \$260m worth of orders to supply parts for large commercial airline programmes.

The deal marks a significant diversification into the growing civil aircraft market, decreasing its reliance on the troubled helicopter sector.

The company, based in Yeovil, south-west England, has won civil aircraft component orders worth \$120m from McDonnell Douglas in the US, a further \$90m orders from Dornier, the West German aerospace company controlled by Daimler Benz, and another \$50m order from Hispano Suiza, a subsidiary of the French state-owned Sncma aero-engine group.

Westland Aerospace, the group's aircraft component subsidiary based on the Isle of Wight, will supply engine nacelles - the large metal casings for the new McDonnell Douglas MD-11 long range trijet programme, the Dornier 328 turbo-propeller commuter aircraft and the

CFM56-5C engine jointly made by Sncma and General Electric of the US which powers the new Airbus A-340 four-engine long range airliner.

Mr Alan Jones, Westland's chief executive, said he regarded the three orders "of great significance" to Westland because they reflected the company's efforts to broaden its base and expand operations in the buoyant civil aircraft market.

"Our basic policy is to take the skilled and engineering resources of the group and address them to growing markets like the civil aircraft business," he said. He claimed the company was developing a leadership position in the engine nacelles field in the UK, adding that it intended to pursue a wide range of high-technology opportunities in the civil aircraft sector.

OVERSEAS NEWS

Soviet forces to start final withdrawal from Hungary

By Nicholas Denton in Budapest

THE SOVIET forces which have occupied Hungary on a "temporary" basis since the end of the Second World War, today begin a total withdrawal, under an agreement signed between the two countries at the weekend.

The timetable for the Soviet pull-out closely matches that agreed recently with Czechoslovakia: the deadline is June 30, 1991, and the process begins immediately with today's departure of one rifle battalion stationed in western Hungary.

Saturday's compact between the Soviet Union and Hungary envisages that 70 per cent of Soviet forces will depart by the end of the year and 90 per cent by the end of February 1991.

Mr Ferenc Somogyi, head of the Hungarian negotiating team, said yesterday that all basic Hungarian demands had been met.

The Soviet Union had set August 1991 as the earliest date by which their equipment could be removed, but compromised when the Hungarian Government agreed to buy much of the Soviet oil and gas stores and to arrange the sale of other material.

Mr Somogyi admitted that the Hungarian side had capitalised on the Soviet interest in concluding the agreement

before the Hungarian elections, due in a fortnight, after which the Government will be less acquiescent.

The strongest opposition parties, who will dominate the next parliament, have all called for withdrawal over a time span much shorter than that which the ruling Socialist Party has accepted.

Some politicians have said that since Soviet forces took two days to enter Hungary to put down the 1956 uprising they can leave in two days, too.

The Socialists will still try to claim credit for the agreement, but by presenting the final deadline as a bad deal, the opposition parties have dented the Government's triumph.

The observers at the talks from the Hungarian opposition, with an eye on the forthcoming elections, have called for the incoming freely elected government to re-examine the agreement, with a view to accelerating the withdrawal.

In response to their criticisms, Mr Somogyi yesterday stressed that the agreement specified that the last of the Soviet forces should leave "not on June 30 but before, if everything goes well, it could be completed before."

After unilateral withdrawals which began last April, 50,000

Soviet soldiers remain stationed in Hungary, along with another 50,000 civilians and dependents.

The Soviet military presence in Hungary, which has no border with a Nato country, was never as impressive as that in Czechoslovakia.

But the Soviet withdrawal will take as long because Hungary was a staging-post for the Soviet forces further west and so an important location for supplies.

Over double the amount of equipment and material was stored in Hungary as in Czechoslovakia, according to Mr Somogyi.

Last November, a summit meeting of the Warsaw Pact alliance issued a condemnation of the invasion of Czechoslovakia, but no such statement has been made over the Hungarian events of 1956.

"We must give a clear picture of 1956 and the Soviet military interference," the Hungarian Foreign Minister Gyula Horn told a news conference in Moscow.

Mr Horn also called for the scrapping of a friendship and co-operation treaty under which the Soviet Union sent in troops in 1956 to put down Hungary's reform movement.

Estonians seek to bring back 1940...

By Paul Winfrey in Tallinn

THE 498-member Congress of Estonia yesterday passed a resolution declaring itself to be the legitimate representative of the Estonian people and calling for the re-establishment of independent Estonian statehood.

The two resolutions passed by the Congress, which claims to be the lawful descendant of the Estonian parliament dispersed in 1940, declared that Estonia was a "free and independent" republic which had been occupied by Soviet troops for 50 years.

Although technically not a declaration of independence, the two resolutions were the opening round in a process organisers believe will lead to Estonian independence.

The Congress also decided to demand

the withdrawal of all Soviet troops stationed on Estonian soil and despatched Mr Endel Liidas, a physicist who was elected chairman of the Congress, to Moscow, where he will meet representatives from Latvian and Lithuanian popular movements today to agree on a joint position for forthcoming negotiations with Moscow over Baltic independence.

Yesterday's meeting was the culmination of a year-long campaign by Estonian nationalists. Rather than seeking independence through the Supreme Soviet, as other Baltic republics are doing, Estonian activists chose to elect an entirely new body, which organisers claim is the legitimate heir to the body deposed by invading Soviet tanks in

1940. "We do not intend to achieve independence through the body set up by the occupying powers," Mr Tuure Kalam, an activist, told the assembly. "We have reached an historical summit where the suffering and aspirations of our people have finally come together."

Along with the "Declaration Concerning the Legal Restoration of State Authority on the Territory of Estonia", the delegates, who include 35 representatives elected by Estonian communities abroad, requested a UN debate over the Soviet Union's violation of the Tartu treaty of 1920, which established the independence of the tiny Baltic state.

The delegates to the Congress were elected by a reduced electorate of

700,000 Estonian citizens. Only those who could prove descent from citizens of the once-free Estonian Republic were entitled to vote. The voting took place over a full week a fortnight ago.

Elections for the Estonian Supreme Soviet will take place on Sunday March 18. Congress organisers have called on Estonians to take part in the Supreme Soviet elections, even though they do not recognise the legality of that body.

"In relation to Estonia, the Supreme Soviet is illegal," Mr Edgar Savisaar, who is expected to be part of the team sent to negotiate with Moscow, explained to the delegates. "But in relation to the Soviet Union it is still legal. We must have good relations with it to achieve independence."

... and Georgians plan to revive the republic

By John Parker in Moscow

LITHUANIA is not the only Soviet republic declaring independence. Last Friday, in Georgia, the local parliament also declared illegal the treaties under which the republic joined the Soviet Union and demanded immediate negotiations with Moscow to recognise its claim to independence.

At the same time, more radical nationalists went a step further by saying that that tomorrow they will set up an alternative government for an independent Republic of Georgia which they claim has never ceased to exist.

In an extraordinary session of the Georgian Supreme Soviet, the Communist Party first secretary, Mr Givi Gurgenidze, pushed through a resolution on

the defence of the republic's sovereignty, which said the proposed new presidential powers were "unacceptable". The resolution also said that Georgian delegates to the Congress of People's Deputies should not take part in the vote on the question when it is held in Moscow today or tomorrow.

During the debate in the Georgian parliament, speakers called the new powers a "violation of the rights of Union republics" and said that "there was no guarantee that after Gorbachev some other individual would not come to this Everest of power."

At the end of last year, the Georgian Supreme Soviet had declared that any action by the authorities in Moscow

that contradicted the Georgian constitution would automatically trigger a declaration of independence.

On Saturday, 4,000 people, including 30 hunger strikers, rallied outside the government and Communist Party headquarters in Tbilisi, the republic's capital, to protest against presidential rule. A similar rally was held in Kiev, the capital of the Ukrainian republic, where, according to the main nationalist organisation, Rukh, 50,000 people demonstrated against the proposed new powers.

More militant Georgian nationalists, however, have dismissed the actions of the Supreme Soviet. They argue that no talks should take place with what the

call the occupying powers. At a meeting of their leaders in Tbilisi on Saturday, they said there was a "loss of trust in the present leadership of the republic which is acting in accordance with the instructions of Moscow."

The meeting of the Council for the Salvation of Georgia, the group which represents the radicals, also said that a forum of alternative political parties and movements - of which there are nearly 100 - would convene in the capital tomorrow in order to choose their own coalition government.

This government, they added, would be chosen at the headquarters of the Institute of Marxism-Leninism in Tbilisi.

Hopes for gradual German unification

By David Goodhart in Bonn

MR Wolfgang Schäuble, the West German Interior Minister, stressed yesterday that his Government's preferred constitutional route to unity - through Article 23 - would still allow for a gradual, staggered, merging of the two countries.

The Article 23 route, by which the East German regions simply declare themselves part of West Germany, has been criticised as an over-hasty path to unity.

But Mr Schäuble said on West German television it would be wrong to imagine that one day after an Article 23 decision the entire legal and social system of West Germany would become effective in East Germany.

He quoted the example of the Saarland, which joined Germany, using Article 23, after a referendum in 1955, but then spent several years gradually adapting its institutions to West German standards.

Mr Schäuble also said that the two German states and the four victorious World War Two powers would work out the details themselves. "We must of course inform and consult everyone - all our Nato partners and European neighbours," he said during the television discussion.

"But the decisive questions will be discussed between the Germans, the two states in Germany, and the four powers. That does not suit everyone else in Europe, as we know."

In East Germany, campaigning for the country's first free elections on March 18 entered its last week with opinion polls showing that the Social Democrats (SPD) and a three-party conservative alliance

might have to form a "grand coalition." The polls suggested the Alliance for Germany, backed by West German Chancellor Helmut Kohl, and the SPD were running virtually neck-and-neck and neither would be able to form a government on its own.

The wartime allies - the United States, Soviet Union, Britain and France - will begin unity negotiations with West and East Germany in Bonn on Wednesday.

The so-called "two-plus-four" talks aim to plot the security contours of a united Germany, including its military status, the border with Poland, Poland, alarmed by equivocation in Bonn about German recognition of its post-war borders, which include large areas of former German territory, has launched a diplomatic offensive aimed at winning a place at the talks.

Also at the weekend, the West German Social Democrats officially backed the position of the party deputy leader, Mr Oskar Lafontaine, and called for the final abolition of all incentives for East Germans to emigrate to West Germany.

The two main incentives are integration money of more than DM10,000 (\$5,932) in the first year and priority status for public housing.

Only 8 per cent of those expelled from Germany's former territories in Poland want to return to their, or their parents', former homes, according to the Bild am Sonntag newspaper. The views of the 12m refugees from these territories, and their descendants, is thought to be one reason why Mr Helmut Kohl has risked international rebuke over the Polish border question.

Protesters demand end of Romanian secret police

ANTI-GOVERNMENT protesters demanding the removal of all Communist and secret police influence in Romania demonstrated in Bucharest and two provincial cities yesterday. Reuter reports from Bucharest.

Demonstrators massed in the Opera Square in Timisoara where the Romanian revolution began on Dec 16 last year and in the centre of the Moldavia capital of Iasi.

More than 1,500 people took part in an illegal march through central Bucharest to the headquarters of the Provisional Council of National Unity (PCNU).

The Council is responsible for Romania's government in the run-up to democratic elections on May 20 following the overthrow and execution of Communist dictator Nicolae Ceausescu.

Troops and police guarded the building but did not intervene as the crowd shouted anti-Communist slogans and called for the removal of Mr Ion Iliescu, the provisional President.

Many Romanians are suspicious of former Communists who have assumed an influential role in the National Salvation Front which dominates the PCNU and some of the political parties which will contest the elections.

The demonstrators also chanted against Mr Ceausescu's widely hated Securitate secret police apparatus which has been formally disbanded but many of whose

officers have been absorbed by the army.

Romanian radio reported that several hundred people demonstrated in Iasi, in the northeast of the country near the Soviet border.

The demonstration was led by local journalists who have been on strike for six days and included demands for press freedom and a five-day working week, as well as further action against former Securitate agents.

The provisional government has been introducing the shorter working week gradually, with every alternate Saturday free.

The radio said that a proclamation of the aims of the revolution was read in Timisoara in western Romania.

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OVERSEAS NEWS

Arab League to return to Cairo

By Tony Walker and Jihan Al-Tahrir in Cairo

THE headquarters of the Arab League, central organisation of all Arab states, is to return to Cairo after an 11-year absence, Arab League Foreign Ministers decided in Tunis.

The decision in principle to relocate the League's General Secretariat marks the final step in Egypt's rehabilitation as a leading Arab state. The decision will give a boost to Egypt at a time when it is holding delicate talks with the US and Israel on the peace process.

The League's HQ was moved to Tunis in 1979 after Egypt signed its peace treaty with Israel. The treaty led to Egypt's suspension from the League. News of the decision to return to Cairo was carried by Egypt's Middle East News Agency. A formal announcement is expected soon, with a final decision on the date, at the next Foreign Ministers' meeting in Tunis in September. Cairo is set once again to become the centre of regional decision-making. Egypt lost this role when it signed the 1979 peace treaty. The decision

Mosbacher to keep up pressure on Kaifu

By Peter Riddell, US Editor, in Washington

MR Robert Mosbacher, the US Commerce Secretary, today starts a week-long visit to Tokyo, expressing confidence about progress in opening Japanese markets, but reinforcing President George Bush's warning that resolving these trade issues is crucial for a good long-term partnership.

His visit comes at a sensitive time in US-Japanese relations, with an interim report due in three weeks on talks over the Structural Impediments Initiative on market opening and with US deadlines this summer on disputes over timber, satellites and supercomputers.

There is growing Congressional pressure for tough action in the absence of real progress in these discussions.

Mr Mosbacher, known for his bluntness, said in a briefing in Washington before leaving that he wanted to stay out of Japanese domestic politics.

Political decision over journalist's life

Andrew Gowers asks what chance of success for a clemency appeal

THE British Government's attempt to save the life of Farzad Bazoft, a journalist working for the London Observer newspaper, by appealing to the Iraqi leader on "humanitarian" grounds is one of its more unusual exercises in diplomatic damage-limitation.

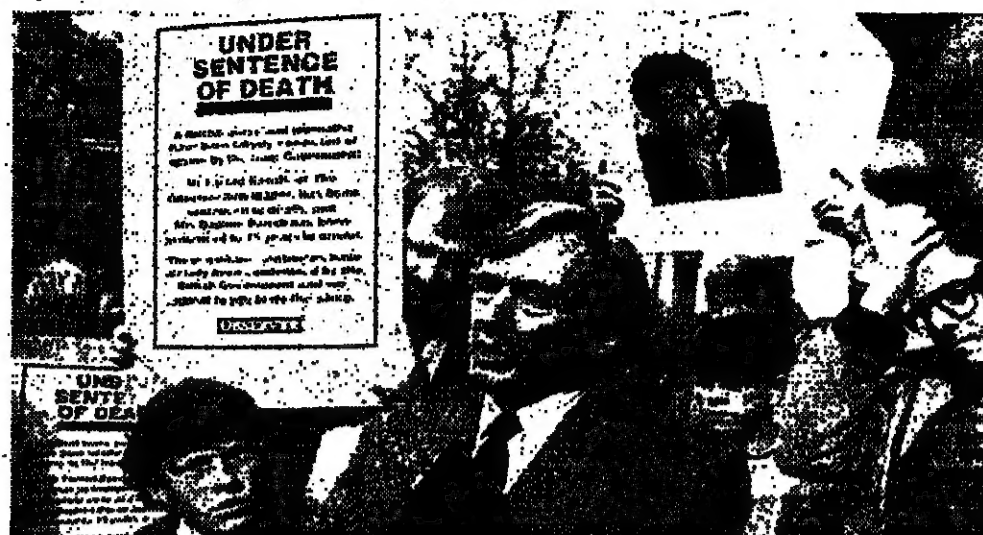
President Saddam Hussein is, after all, not a character noted for his finer feelings. He runs a country which must rank as one of the most ruthless and repressive police states in the world. He has long been lambasted in the West for his regime's abuses of human rights.

Why should he worry himself unduly about the fate of an Iranian-born journalist who happens to have fallen foul of the authorities while on a visit to Iraq for a British newspaper, and is accused by Iraqi officials of spying for Israel?

The answer, of course, is that if there is any hope for clemency in Bazoft's case, it rests not on humanitarian but on political grounds. That is the calculation on which Mrs Margaret Thatcher based her last-minute plea through the British ambassador in Baghdad yesterday, and which is driving Britain's effort to mobilise European and international support for its campaign.

There had never been much hope that Bazoft, who was arrested after visiting a top-secret military installation south of Baghdad last September, would receive a trial in which justice was both done and seen to be done. Iraq does not possess anything resembling an independent judicial system.

Iraqi citizens, as testified by a comprehensive human rights report published by the US-based Middle East Watch last month, "enjoy neither freedom of expression nor freedom to form or join political parties or



Observer Editor Donald Treford (centre) protests outside the Iraqi embassy in London yesterday

trade unions... Their government subjects them to forced relocation and deportation, arbitrary arrest and detention, torture, disappearance, and summary and political execution."

Bazoft, moreover, was tried by the Baghdad Revolutionary Court. This body, set up in 1968 to try political and security offences, leaves defendants no right of appeal - save to the President himself. It holds its hearings exclusively in camera; and the accused are almost invariably denied independent legal counsel.

Whether or not the death sentence in this case is carried out will thus depend exclusively on President Saddam Hussein's political judgement - and more particularly, whether he cares about international pressure more than about the perceived need to punish what his officials have portrayed as a breach of Iraqi national security.

The curious fact is that Iraq does care to some extent about its international image. During the eight-year war with Iran that ended in August 1988, Saddam went out of his way to court Western support. Since the ceasefire, he has been battling for an increased flow of Western credit and expertise to help with his country's reconstruction.

He has even been trying to create an impression of partial political liberalisation. Local elections were held last year, and Iraqis were promised a new constitution that will give them the right to form political parties. As recently as this weekend, he offered an amnesty to exiled leaders of Iraq's Kurdish minority - men he had previously vowed to kill.

Saddam has also shown some sensitivity on the human rights question. "I do not say that we respect and care for human rights as we really wish

Mandela to begin first visit abroad today

By Robert Taylor in Stockholm

IT SHOULD come as no surprise that Mr Nelson Mandela's first journey outside Africa, which begins today, should be to Sweden. The neutral Nordic nation has enjoyed a special relationship with the African National Congress since the early 1960s.

Indeed, since the financial year 1972-73 the Swedish Government has provided SKr30m (£42.5m) in direct assistance to the ANC. As much as SKr50m is provided in the current budget and up to SKr100m more is going to other South African organisations such as the United Democratic Front, the International Defence and Aid Fund, and Coasta, the trade union federation.

The financial links between Sweden and the ANC are now formalised. Every May senior civil servants from the Ministry of Foreign Affairs in Stockholm visit ANC headquarters in Lusaka to discuss in detail the ANC's requirements for the coming year. None of the money has gone into buying weapons for the armed struggle. It is mainly devoted to helping with the care of ANC refugees, assisting in agricultural development, education and health care.

A handful of other democratic countries - Norway, Holland and Denmark - have also supported the ANC in practical ways over the years but none has been as comprehensive as Sweden.

The anti-apartheid cause has been well-organised across the small towns and villages of the country for over 50 years, through a coalition of the political parties and the Lutheran Church.

New Delhi to appoint minister for Kashmir

By K.K. Sharma in New Delhi and Zafar Meraf

The Government of V.P. Singh in New Delhi is to appoint a minister in charge of Kashmir affairs following a decision by an all-party delegation that visited Srinagar last week to seek a political solution to the Kashmir issue.

Kashmir is now under Governor's rule following the recent dismissal of the state government led by Dr Farooq Abdullah, the leader of the national conference-congress coalition. The new governor, Mr Jag Mohan, was appointed to head the administrative government of the state.

The decision of the all-party delegation, which met in New Delhi for the second time after its return from Srinagar over the weekend, is thought to reflect the feeling that Mr Jag

Mohan had not adopted a political approach to the problem in Kashmir, where militants have launched a violent movement for secession from the Indian union.

Mr V.P. Singh, India's Prime Minister, has still to appoint a new minister for Kashmir affairs but this is widely expected to be Mr George Fernandes, at present minister for railways. Mr Fernandes was a member of the all-party delegation which went to Srinagar last week and he is the only member who was able to establish contacts with the local people. He is also a friend of Dr Abdullah.

Kashmir has become more tense recently because of a large-scale exodus of Hindus from the main valley.

DIRECT INVESTMENT ABROAD
EC tops list of US investment projects

By Guy de Jonquieres, International Business Editor

ALMOST two-thirds of all foreign direct-investment projects announced by US manufacturing companies last year were made in Europe, most of them in the European Community, according to a survey carried out by the Conference Board.

The Board, a business research organisation, said the number of such projects worldwide totalled 217, 30 per cent more than in 1988. The value of the 22 projects for which figures were disclosed was \$16.6bn.

Europe attracted 138, or 63 per cent, of the projects, of which 116 were in the EC, 13 were in other parts of Western Europe and nine were in the Soviet Union and Eastern European countries.

In the EC, acquisitions were

by far the most common form of direct investment, accounting for 72 of the cases recorded. The rest of the projects were joint ventures, new plants and expansion of existing facilities.

The UK was the single most popular location worldwide, attracting 38 projects, more than the whole of Asia and Africa.

Canada was in second place with 35 projects, twice the number reported in 1988.

The Board said the strong pace of US manufacturing investment abroad continued into this year, when new acquisitions and joint ventures were being completed almost every day.

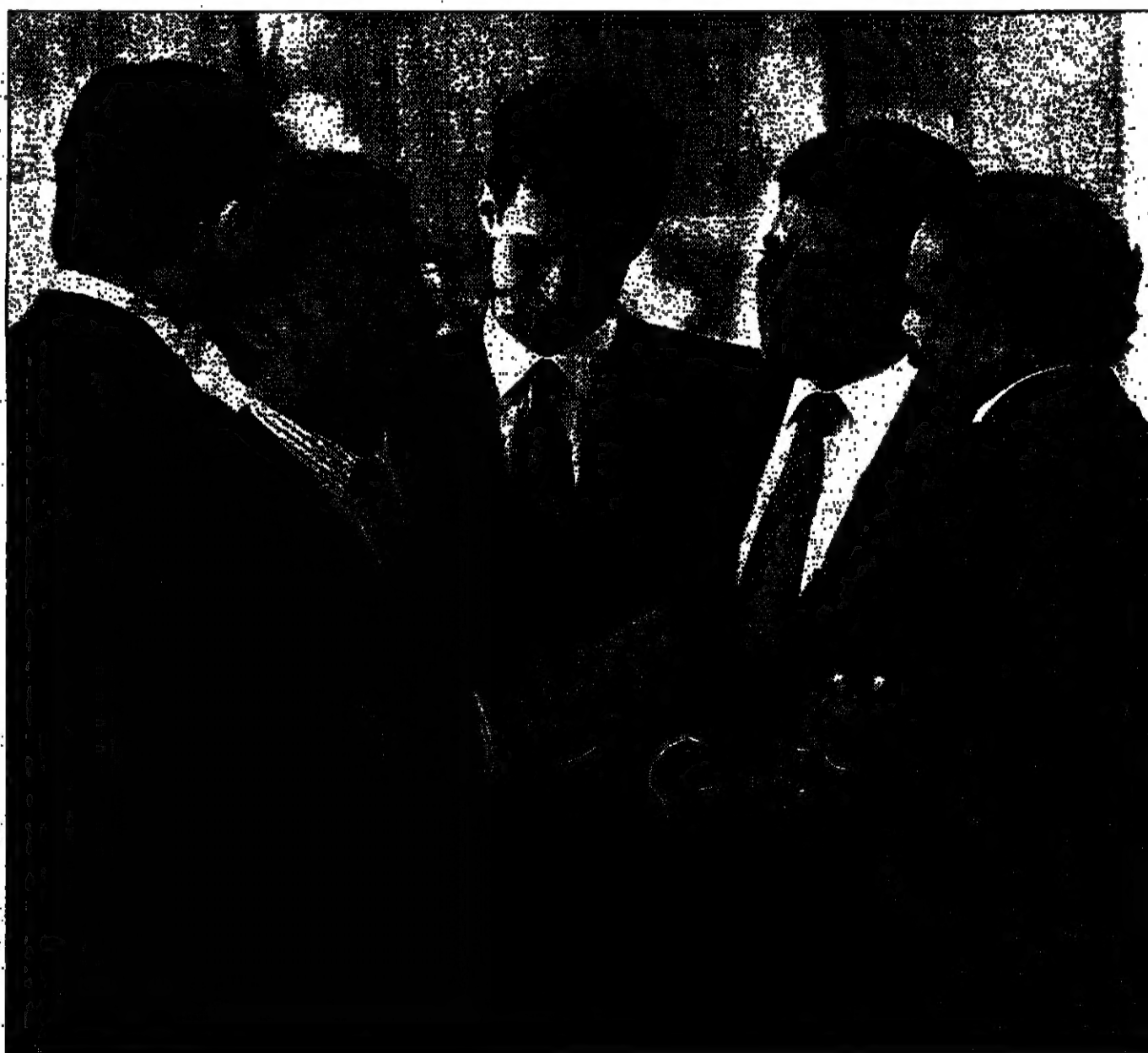
The Conference Board, 307 Avenue Louise, B-1050 Brussels. Tel: 640 6244.

The second conclusion is that the Japanese distribution system is far more complex, involving many levels between the manufacturer and the end-user, raising the final price at the end of the chain. Imported goods must be handled by importers and agents making companies in addition to the normal distributors and/or manufacturer's sales representatives.

Mr Mosbacher, who will meet both government and private-sector leaders on his visit, expressed cautious optimism about possible changes in regulations on new retail stores which have been pressed by the US during the structural impediments talks.

While arguing that, for the first time, the re-elected Kaifu Government recognised the need to act to help domestic consumers, Mr Mosbacher stressed the sense of urgency. "We need to make sure there is a clear understanding between the president and the prime minister on the importance of trade as a really long-term condition for a good partnership."

The trade problem "could really foul up our partnership," he said.



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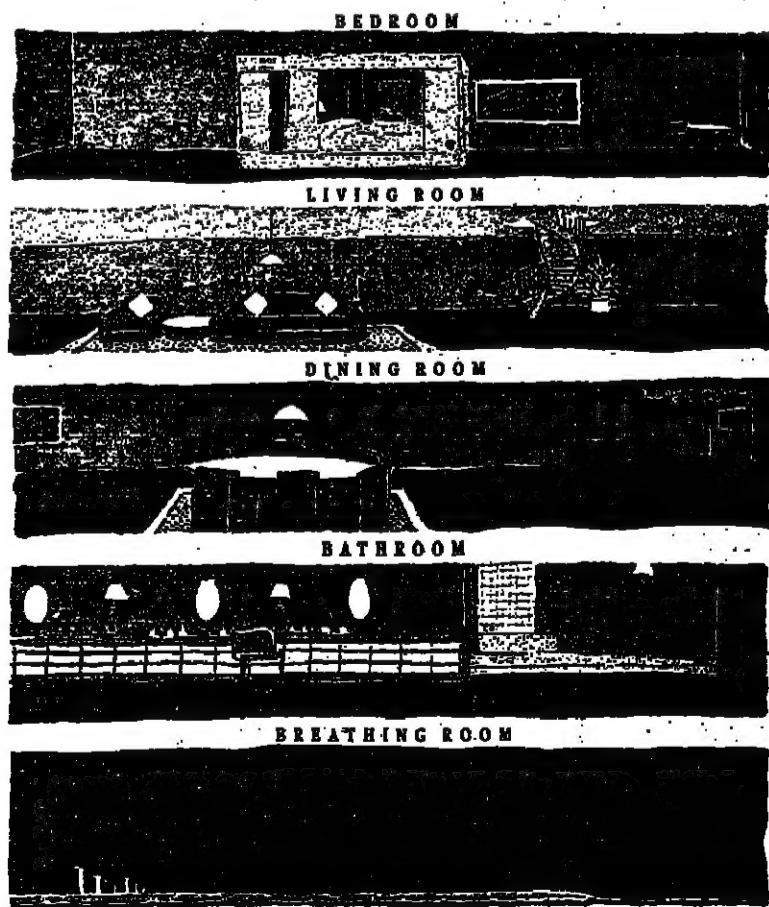
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OVERSEAS NEWS

France's defence procurement 'must go high-tech'

By Ian Davidson in Paris

AN internal French government report has recommended that the French defence industry concentrate more on high-technology sectors, and abandon those branches which have little such content or poor export prospects.

The report, drafted by a working group of industrialists, diplomats and senior civil servants, would represent something of a revolution in French defence procurement policy.

The policy has traditionally been based on the premise that the French Government should buy virtually all its defence equipment in France, and that France's defence industry should produce virtually the entire gamut of defence equipment.

France has long prided itself on being the world's third-biggest defence-equipment producer, behind the US and the Soviet Union, though in scale the French industry is generally neck-and-neck with that of Britain.

But the report, drafted under the aegis of the policy planning staff of the Foreign Ministry, concludes: "France no longer has the financial basis for complete technological independence, and that is why administration must make choices in line with its means".

The report makes no bones that its recommendations would involve a sweeping

restructuring of the defence industry.

"One or two industrial companies will stay in certain sectors," it says, "but others will either have to abandon entire branches, or have to give up prime contracting by finding co-operation abroad".

The futures of Dassault, the fighter manufacturer, and of the Groupement Industriel des Armements Terrestres (GIAT), the state-owned ordnance concern, will depend on their ability rapidly to find industrial partners, who might in a first phase be French.

Some low-technology sectors, hitherto regarded as sensitive, will have to be given up, says the report, which has been leaked to the daily newspaper *Libération*. As examples of dispensable sectors, it cites artillery and shells, where France's main suppliers are the company Creusot-Loire and GIAT.

The report criticises current plans to produce carrier-borne fighter aircraft - apparently a direct criticism of the recent decision by the defence ministry to go ahead with the manufacture of a specialised naval version of the Dassault Rafale fighter, instead of buying F16s off the shelf from the US.

It also criticises plans to produce a military computer. French naval shipbuilders, which contribute little to the balance of payments, should seek links abroad.

Cognac men in good spirits

FRENCH cognac producers yesterday reported a record year in 1989, thanks to fast growth in Japan and Asia, where drinkers are taking to the best-quality brands, William Dawkins reports from Paris.

France produced just over 550m (5327m) worth of cognac last year, a 5.6 per cent rise over 1988, the producers' association, BNIC, said. France drank only 7 per cent, exporting the rest, which contributed FF14.4bn to its trade balance.

Cognac exports were up nearly a quarter in value,

although the world market for spirits has been flat or declining. Sales to the US slipped 3.5 per cent to 28m bottles, with Japan in second place (27m bottles), underlining the success of French luxury goods in a market other areas of French industry argue is still unfairly closed to foreigners.

Cognac sales in Asia as a whole rose 25 per cent in volume (33 per cent in value). The EC took 58m bottles. Britain kept its place as Europe's top cognac importer (17m bottles) followed by West Germany (12m).

Way forward signposted for up-and-fighting EC steel

The Commission plots the next five years for a newly recovered industry, Lucy Kellaway reports

THE crisis days are over in the European steel industry. Steel is becoming a business like any other. The way forward is through the free market. Companies that invest will succeed.

This is the general thrust of a lengthy document approved by the Commission last week plotting the next five years for European steel. The industry, which only 10 years ago was declared to be in a state of manifest crisis, seems to have made a lasting recovery.

Partly through its own investments, and partly thanks to the Ecu 40m (265m) subsidies that have poured into European steel companies since 1980, the industry is now profitable, and relatively settled.

Its latest vital statistics show it to consist of 379 companies, producing 20 per cent of the world's capacity, with a turnover of Ecu 50,000bn, value-added of Ecu 15,000bn and a payroll of 400,000 people.

The Commission's report is based on the forecast of a healthy European economy, growing at about 3 per cent a year. Against this background, steel demand is set to grow at

between 1 and 3 per cent. With further reductions in capacity and the shift to more efficient production techniques, the weight of excess capacity will become less of a problem.

On the industry's own plans, the big capacity cuts of the last decade are likely to continue, although at a much slower pace.

Having come down by some 30m tonnes since 1980, capacity is expected to fall by another 7m tonnes over the next three years to about 124m, and thereafter to stick at around that level until 1995. Production is expected to edge up slightly from about 137m tonnes to about 138m-143m tonnes in 1995.

In the past few years, the industry has responded to the needs of its customers, slowed the substitution of steel for other materials, and kept the net level of exports constant at between 10m-12m tonnes a year. Given investment projects already under way, over the next five years production will become faster, better and cheaper.

The report does not suggest grounds for complacency. It points out that Europe still

lags behind its most competitive partners, and urges companies to use the present years of windfall profit to invest more for the future.

Even though European steel producers have reduced the number of hours it takes to produce a tonne of steel from

'Partly through its own investments and partly through the subsidies that have poured in, the European industry is now profitable and relatively settled'

6.9 in 1963 to 3.9 in 1988, Japanese producers are busily slimming at two hours per tonne.

Average energy consumption in Europe is 22 gigajoules per tonne, in the Far East it is 18GJ/tonne. Moreover, there can be little hope of closing the gap when investment in research by European steel companies is running well below that of Japanese and Korean producers.

The Single Market is expected to have a strong positive effect on the steel industry. Even though steel has always been a special case, covered by the protectionist Treaty of Paris, rather than by the more liberal Single Market Act, the general deregulation of 1992 will make new emphasis on the free market "irreversible".

The 1992 project should provide a windfall for the industry in other ways, the report notes, with a "very considerable" effect on energy costs, and a possible reduction in financing costs of 10 per cent at least. This should mean that steel prices can come down, without profits being squeezed.

A side-effect of the 1992 deadline is a new dynamism on the part of steel companies. The study claims that the ideas of management have undergone "a fundamental reappraisal" which should generate the right strategies for the future.

Companies are also starting to do the right things to protect themselves against future downturns and strong competition from outside. These include: paying more attention to customer service and com-

mercial investment; diversifying into areas other than steel; takeovers and mergers; specialising in high-quality products, and more integrated production techniques.

To succeed, big mergers, especially cross-border ones, may be necessary, the Commission notes. But it warns that even in the name of further rationalisation, it is not going to tolerate arrangements that lead to cartels in production or pricing.

It suggests big steel companies would do well to consider expanding further into distribution in other member states, but hints it might not permit the big steel companies to tighten any further their grips on distribution in their home market.

The Commission also holds out hope for a general freeing of trade over the next five years. Since 1989, it has been increasing the quantities permitted under its voluntary restraint arrangements, and has been cutting down the number of categories to which they apply.

It notes that the new US quotas expire in 1992, after which they may be lifted altogether;

while the strength of the Yen has meant increased imports into Japan.

The good news comes with a sting in the tail, that "continued and even stiffer anti-dumping measures" will be taken against any countries unfairly subsidising their industries.

In this new open and competitive world, EC steel companies' trade balances to the rest of the world are not expected to change much from 1988 levels of 11.4m tonnes, reaching between 13.3 and 8.7m tonnes by 1995.

But the composition is likely to continue to shift as Europe continues to import more semi-finished and unsophisticated products such as concrete re-inforcing bars, and export more valuable items like coated sheet.

The Commission's report will form the basis for its policy towards the industry over the next five years. The conclusions have yet to be worked out, but it is clear from the tenor of the report that any producers who think they are going to be cushioned into the next downturn will be disappointed.

Athens cracks down on the tax-dodgers

THE Greek Parliament has passed a fiscal reform law aimed at curtailing widespread tax evasion and broadening the tax base to include Greece's 900,000 farmers, Karina Hope reports from Athens.

The legislation provides for privatising 28 heavily-indebted industrial companies nationalised by the former Socialist government, and closing several others.

"The law is designed to make tax collection fairer and more efficient. The only people who pay all their taxes now have it deducted at source," a Finance Ministry official said.

At least Dn3,500bn (212.9bn) in income escaped taxation in 1989, while increased VAT receipts in 1989 fell 50 per cent short of forecasts. The only new taxes are a 25 per cent capital gains tax on profits from property sales, and a stamp tax on new businesses.

Italy's communists relaunched in tears

By John Wyles in Rome

THE task of tearing up its ideological roots and relaunching itself towards "reformism" proved almost too much for the Italian Communist Party at the weekend.

The final hours of the party's special Congress in Bologna saw its leader break down in tears, only a slender majority of delegates voting in favour of keeping Italy in Nato, and the affirmation of a large minority which wishes for ever to be communist.

Nevertheless, from today the PCI is launched into its "concurrent phase" which may last from nine months to a year. Then comes another Congress which will formally baptise the new political formation of the left, around the flag of which those who wish to create an alternative to Christian Democrat-dominated governments will be urged to rally.

Having openly paraded deep internal divisions over "whether" to abandon commun-

ism, and manifest uncertainties over "what" to replace it with, a new pluralist PCI faces its first test of public opinion in less than two months.

Party officials say private polls indicate that in the local government elections of early May, it should hold on to the 27 per cent share of the vote taken in the 1987 general election. More detached observers are much less certain the political ground will hold beneath this newly fractions party.

Certainly, Bologna should have convinced many Italians that the PCI has for ever abandoned that monolithic facade long imposed by democratic centralism.

The tensions which have built up over the past four months between the 60 per cent of the party which has lined up behind the reformist line of its leader, Mr Achille Occhetto, and the 34 per cent opposed to the burial of old name and identity, surfaced

movingly and dramatically at luncheon on Saturday.

Having made a relatively uncompromising closing speech built around the declaration "I am not moving from this position", Mr Occhetto dissolved into tears when his old mentor and chief opponent, Mr Pietro Ingrao, offered him a salutary embrace.

The sight, magnified on a giant screen around the oval hall, of their stocky mountaineer leader sobbing uncontrollably, opened hundreds of other tear ducts among delegates and observers.

But true grit was restored in subsequent voting on motions and statutes which were vital battlegrounds for the Ingrao minority and the Occhetto majority.

Tactical assaults by the old guard, such as attempts to require the holding of a referendum of the PCI's 1.4m members on the new party and its programme, were solidly

defeated. But Mr Occhetto had to request a confidence vote on a Young Communist motion in favour of leaving the Nato alliance.

He was backed by 498 votes against 353 with 33 abstentions, a barely respectable victory on an issue of particular resonance at home and abroad.

At the end of the day, the world was not much clearer about where the post-Communist PCI stands on the future European order - Mr Occhetto implied that a reunified Germany would have to leave Nato - nor on the detail of its economic and social policies.

The profile will have to be much clearer, and less radical, than it seems to be in prospect, before Mr Bettino Craxi's Socialists will even consider moving towards an alliance with Mr Occhetto.

Without the Socialists, the Italian Left will remain divided and the Christian Democrats in power.

Sweden unveils new plan for industry

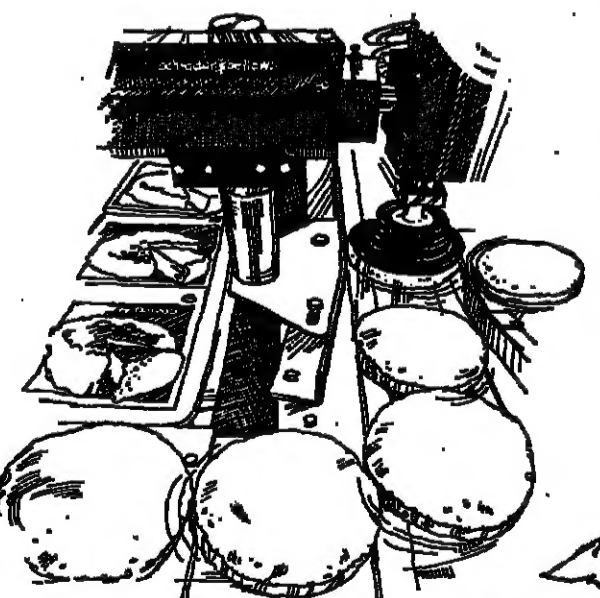
THE Swedish Government has unveiled a strategy promising more active state intervention in industrial restructuring. Robert Taylor reports from Stockholm.

The strategy proposes a state-holding company to include Sweden's seven publicly-owned industrial enterprises, which have market value of SKr25bn (2.4bn) and employ 75,000 workers. Up to 55 per cent of the company will be owned by the state with the rest of the shares sold off. The company will not be floated on the market yet.

Companies to be included are Procordia and Celstus; the mining concern LKAB; the steel combine SSAB; ASSA and NCB (forestry), and the FTV ordnance group. No changes can be expected until talks and between the EC and European Free Trade Association on creating an economic space between the two areas.

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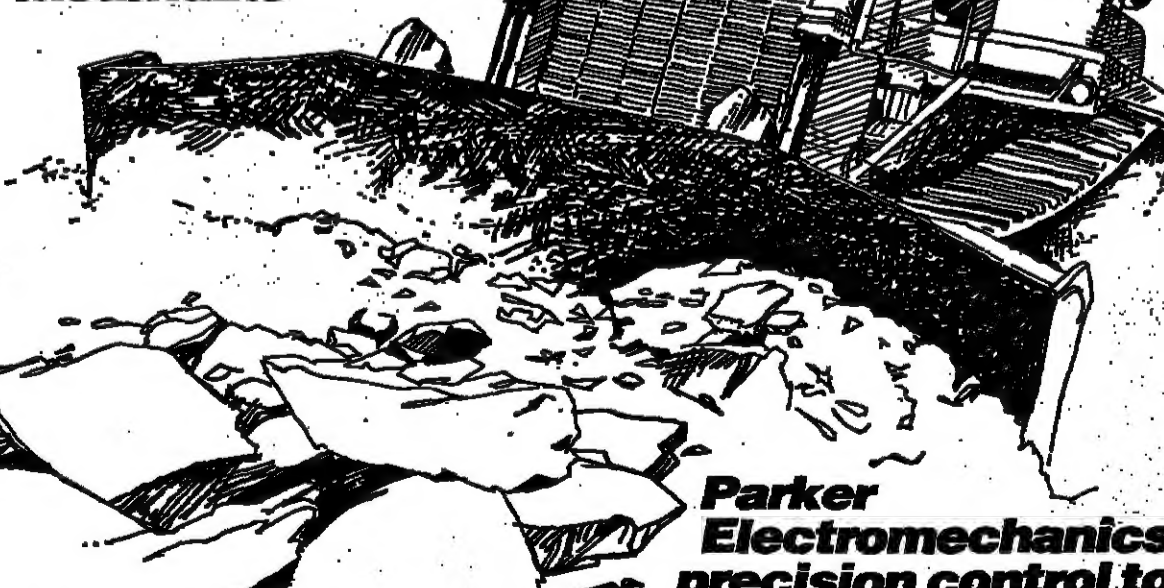
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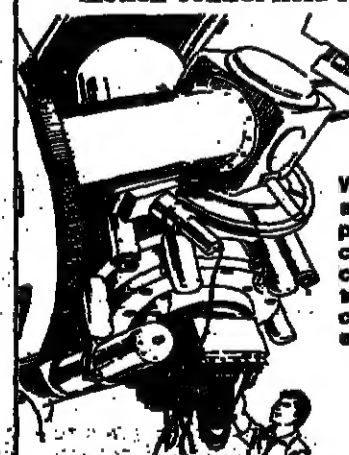
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OVERSEAS NEWS

Aylwin sworn in as Chile returns to democracy

MR PATRICIO AYLWIN was sworn in yesterday as Chile's first elected president since the 1973 coup, taking over power from the long-time military leader, General Augusto Pinochet. Reuter reports from Valparaiso.

Mr Aylwin, a 71-year-old lawyer, headed a broad coalition of parties from the left to the centre to win last December's presidential election. Gen Pinochet, who once said not a leaf stirred in Chile unless he moved it, was forced to step down after losing a plebiscite in 1988 designed to confirm him in power for eight more years.

Smiling broadly and waving at a crowd of thousands lining the streets and shouting his name, Mr Aylwin slowly made his way through crowds of reporters and supporters in an open car.

He was due to return to Santiago later to address supporters from the balcony of the Moneda presidential palace.

Gen Pinochet will stay on as army commander-in-chief and politicians say he hopes to return as President.

Police said demonstrators threw tomatoes, apples, shoes, coins and sticks at Gen Pinochet as he drove to Congress.

As he heaved the futuristic new Congress building, members of Mr Aylwin's coalition shouted "assassin, assassin".

Mr Aylwin, smiling broadly, kissed his wife and shook hands with the US Vice-President, Mr Dan Quayle.

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Aylwin: a moderate lawyer

imposed by the outgoing general for foreign officials wanting to go to the handover. The rest of the visiting 14 heads of state and government will take part in later ceremonies.

Gen Pinochet met Mr Quayle on Saturday at his home.

Mr Quayle, who was booed and whose motorcade was

kicked by supporters of the military ruler as he left the

meeting, said to reporters that he had told Gen Pinochet his

role in history would be determined by how smooth Chile's

transition to democracy was.

But the 71-year-old general

complained he was misunderstood. "Thirteen years ago

we did what is happening in [Eastern] Europe now and we

were not understood. What is happening with the Berlin

Wall... happened to us 16 years ago when the communists

were overthrown," Gen Pinochet told Mr Quayle.

More than 1,500 people died

in the 1973 coup, which left the country's left-wing president,

Mr Salvador Allende, dead in the bombed ruins of the

Moneda palace.

Sandinistas pass law on amnesties

By Tim Coone in Managua

A CONTROVERSIAL package of legislation is being rushed through the Sandinista-controlled National Assembly in Nicaragua before the new US-

supported Government takes office in six weeks.

One law, which was passed at the weekend, pre-emptively

retaliatory measures by the new Government against

outgoing officials of the Sandinista Government, under

investigation for alleged abuse of their positions.

Cases covered include charges of fraud and corruption,

but the amnesty also extends to members of the

army and police who have exceeded their authority.

Known as the General Amnesty and National Reconciliation Law, it also

quashes legal proceedings against anyone who has committed

politically-related crimes against the state since the Sandinistas

came to power in July 1979.

Such a general amnesty has been one of the conditions

demanding by the US-backed Contras in order for them to

surrender to the Sandinistas.

Other legislation in the pipeline is to prevent former

landlords from reclaiming properties, houses and lands which

have been expropriated from them since 1979.

Doubts over Mexican inflation

By Richard Johns in Mexico City

MEXICO'S rate of inflation was 2.3 per cent in February, bringing the figure for the first two

months of the year to 7.1 per cent, compared with a budget-

ary projection of 15.3 per cent for 1990 as a whole. On an

annualised basis, the Consumer Price Index (CPI) was up by

25.5 per cent in the 13-month period to the end of February,

according to Bank of Mexico statistics.

At the same time, doubts are growing about just how accurately

the CPI reflects cost-of-living increases.

For instance, the index maintained by the economics

faculty of the National Autonomous University of Mexico

reported that the cost of its basic basket of 42 goods and

services for working class family was up 24 per cent in

December and January alone.

The general expectation now is that the Government will

fail to contain inflation to a level even near the one targeted in the budget.

Wage settlements for skilled workers in contractual negotiations

immediately in prospect are likely to far exceed the 10

per cent rise in the minimum wage set in December for the

period to the end of July, when the current phase of the Pact

for Economic Stability and Growth (PECE) comes to an

end. The trend for them is likely to be in line with the 27

per cent, including benefits, obtained by the labour force at

Ford's motor assembly plant at Hermosilla late last month.

The business community is now planning for a final out-

come of 30-37 per cent.

January's 4.8 per cent increase in the official CPI was largely the result of adjust-

ments in public sector prices - a one-off "inflationary bubble".

In the meantime, pressures from the private sector for an

early liberalisation of prices - for the most part frozen for

just over two years - are growing as the squeeze on

profit margins tightens.

For instance, the new president of the National Chamber

of Industrial Transformation, Mr Robert Sánchez de la Vara,

has called for the removal of controls when the current

PECE accord expires.

Gen Aylwin stepped down after a week of anti-government

protests and street violence in which several people were

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and student groups behind the protests have said they will

continue demonstrations today until Gen Aylwin leaves Haiti.

Gen Aylwin yesterday met opposition parties to discuss

their demands that Gen Aylwin be made to leave the Caribbean

republic of 6m people. The opposition parties consider his

continued presence in the country a likely source of instability.

There were outbreaks of looting in Port-au-Prince, the

capital, and in other towns on Saturday night, following Gen

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The interim government to be announced by Gen Aylwin

is likely to be headed by Mr Gabriel Volcy, the president

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The new government's main duty will be to prepare for

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UK NEWS

British Coal says it will import if local supply is inadequate

By Maurice Samuelson and David Thomas

BRITISH COAL has told the UK's electricity industry that it will import foreign coal if it is unable to meet the generators' full requirements for low sulphur coal from its own pits.

This is an unexpected feature of the complex contracts British Coal concluded with National Power and PowerGen, the successor companies to the Central Electricity Generating Board, on Saturday after days and nights of grueling negotiations.

British Coal says it is confident such imports will not be necessary, but it is understood to have agreed that any price advantage from topping up its supplies with cheaper imports would be passed on to consumers through distribution companies in England and Wales.

Under the agreement, British

Coal will supply the bulk of the power stations' fuel for the next three years, starting with 70m tonnes a year in the first two years and falling to 65m tonnes in the third year. It does not affect the right of the generators to import more coal outside the terms of the contracts.

The weekend agreement was reached after the generators claimed British Coal was 5m tonnes short of the coal needed to meet their requirements for the sulphur and chlorine content of coal.

The sulphur level affects power stations' ability to meet environmental pollution standards, and an excessive chlorine content can damage boilers.

Mr John Wakeham, Energy Secretary, will meet Sir Leon

Brittan, the European Community's Commissioner for Competition Affairs, in Brussels today in an effort to ensure that the contracts are approved under EC competition rules in time for the planned vesting of the industry into the private sector on March 31.

However, the coal contracts could be challenged by Britain's small independent mining interests which complain that they are paid an average of £30 per tonne for their coal compared with about \$42.50 for British Coal.

Mr Harry Banks, chairman of the National Association of Licensed Opencast Operators, said a groundswell of opinion existed in favour of launching a complaint to Brussels.

"What we are looking for is fair treatment," he said.

Unions see wider role with self employed

By Lisa Wood, Labour Staff

THE GROWTH of low-paid and low-productivity forms of self-employment in Britain over the past decade will give unions better opportunities to recruit the self-employed, according to a Trades Union Congress study.

The study says that the trend towards self-employment in sectors such as construction and financial services has created health and safety risks, undermined training and has been associated with low pay.

It forecasts an increase in demand for unions to provide services for the self-employed. Self-employment is estimated to account for 12 per cent of total employment.

Ministers work to calm Tory nerves as Thatcher dismisses rumours of revolt

By Michael Cassell, Political Correspondent

CONSERVATIVE MINISTERS and MPs yesterday maintained attempts to calm party nerves and damp speculation about Mrs Margaret Thatcher's leadership, following suggestions that a growing number of Tory backbenchers want her to step down before the next general election.

With the morale and confidence of Tory MPs already under severe strain, an effort was being made to play down the extent of dissatisfaction with Mrs Thatcher's leadership and to quash talk of any challenge to her position.

Meanwhile, Labour rejected suggestions that it was about to step up efforts to identify and expel extremists from the party, following ministerial attempts to link it to militant organisers of violent poll tax

demonstrations. The party said any evidence of extremist infiltration would continue to be thoroughly investigated. Labour might, however, consider giving greater investigative powers to regional party organisations.

Disciplinary action against those Labour MPs who say they will refuse to pay the poll tax has been ruled out. The party said the MPs, criticised at the weekend by Mr Neil Kinnock, the Labour leader, were exercising their individual consciences. "They are wrong but they are entitled to be wrong," it said.

At the weekend, Mrs Thatcher dismissed rumours of an attempt within the Cabinet to remove her. Some MPs warned yesterday that the party was wounding itself by

continuing to indulge openly in groundless speculation. Polls conducted by three Sunday newspapers suggested that up to one quarter of the party's 374 MPs wanted Mrs Thatcher to go before the next election. Government sources, however, said they were not going to respond to "a media game."

The same surveys indicated that Mr Michael Heseltine, the former Defence Secretary, was regarded by MPs as the person most likely to replace her.

Mr Heseltine yesterday repeated his now familiar response that he could see no circumstances in which he would challenge Mrs Thatcher, who he believed would lead the party to victory at the next election.

Even so, Mr Heseltine and

any other potential challengers received an outspoken warning from the leader of 100 loyalist Tory MPs that they would be "slaughtered" in any challenge later this year to Mrs Thatcher. Mr George Gardner, chairman of the 92 Group of Tory loyalists, said there was an attempt by the media to panic the party into taking "unwise and self-defeating actions."

He did not mention Mr Heseltine by name, but claimed that anyone unwise enough to challenge Mrs Thatcher would lose, and he "would not give much for her chances either when her retirement finally does come."

Mr Cecil Parkinson, the Energy Secretary, acknowledged concern about the party's position but he called on MPs to stop arguing.

UK engineers protest against employers' roll in new community tax

By Our Labour Editor

THE Engineering Employers Federation has protested to the Government over the legal responsibility being placed on employers to deduct community charge debts from the wages of workers who default on the new tax.

The EEF says there is widespread concern among its 5,000 member companies over the right given to local authorities to obtain a court order requiring employers to deduct poll tax arrears from workers who do not pay in full.

The EEF, the largest industry employers' group, says that this responsibility will place an unnecessary burden on businesses. It has also protested about the wider use of attachment of earnings orders by magistrates' courts.

The move comes amid wider attempts by employers to adjust to the effects of the com-

munity charge. Employers in industries such as hotel and catering have altered pay and conditions to cope with the tax.

The poll tax has created particular problems for employers providing tied accommodation with jobs. Unions representing employees who had avoided rates bills are pressing for higher wages in compensation.

The EEF has protested to Mr Chris Patten, the Environment Secretary, and Mr John Redwood, Under Secretary for Corporate Affairs, at the introduction of magistrates' courts liability orders for poll tax defaulters.

It says the granting of such orders will "place a significant additional burden on businesses" because they may involve employers paying sums to several local authorities as well as having to calculate deductions.

NHS pay study criticises slow pace of change

By Michael Smith

PAY FLEXIBILITY is beginning to appear in the National Health Service but the pace of change is too slow, according to a study by the Public Finance Foundation.

Mr Chris Trinder, senior research fellow at the foundation and author of the report, says significant changes will have to be made for the NHS to be able to cope with growing recruitment and retention problems.

The report says that during the 1980s little change took place in the NHS pay structure for ancillary staff, one of the largest NHS groups. Moreover, differentials were squeezed at a time when those in the private sector narrowed.

Reform of nurses' pay has been more successful under the pay review body system, but Mr Trinder said there was a case for giving NHS managers more scope for bargaining.

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UK NEWS

Banks and societies face loss of savings income

By David Barclay

BANKS AND building societies stand to lose, as much as a third of their annual inflow of savings because of the introduction of separate taxation for married couples, according to a report published today.

UBS Phillips & Drew, the firm of City stockbrokers, says building societies are likely to lose up to £5bn a year of savings as investors switch to unit trusts and other investments that escape composite-rate tax and can pay their investors gross.

Last year, total savings receipts flowing into the building society industry amounted to £16.5bn. Several cash-based money market unit trusts, including M&F Britannia and Fidelity, are offering investment accounts to draw customers away from the banks.

The report predicts that unit trust savings inflows will virtually double this year, rising from £3.6bn in 1989 to £7bn.

Independent taxation, announced by Mr Nigel Lawson, the former Chancellor, in the 1988 Budget, means that from April both members of a married couple will enjoy tax exemption on savings accounts of up to £19,000. Previously only one spouse enjoyed such exemption.

If a husband transfers that amount to his wife in an irrevocable gift, the couple will be able to reduce the effects of composite-rate tax which is deducted at source and cannot be refunded.

Building societies have been lobbying the Government for a change in the law when Mr John Major, the Chancellor, announces his Budget next week. Those with offshore accounts that can pay gross rates have been trying to draw the matter discreetly to the attention of their investors, although they are prevented from direct advertising.

Other societies have been silent on the likely impact of independent taxation, fearing a stampede among their investors to other forms of saving.

Smaller building societies, which rely on replies to press advertising rather than a branch network, are thought to be particularly at risk.

Building societies have been aware of the possible handling of independent taxation for nearly two years, although it is only in the past two months that they have begun to lobby the Government.

They hope the Government will lighten the effects of independent taxation on them in the Budget, either by allowing societies to pay gross interest or by sending the right to reclaim tax on alternative investments.

However, any change would add significantly to the workload of the Inland Revenue, with about 5m taxpayers likely to take advantage of any change.

The effects of independent taxation: UBS Phillips & Drew, 120 Moorgate, London, EC2.

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The effects of independent taxation: UBS Phillips & Drew, 120 Moorgate, London, EC2.

Investment by pension schemes to be studied

By Eric Short, Pensions Correspondent

THE Department of Social Security is to carry out a survey to determine the extent of investment by pension schemes in their parent companies.

Mrs Gillian Shephard, the junior Social Security Minister, said the results of the survey would be used by the Government to determine the extent of the legislation used to control schemes' self-investment.

The Social Security Bill, currently before Parliament, will give the Social Security Secretary power to regulate "employer-related" investments by company pension schemes. The move is among measures to improve security for members and pensioners in such schemes.

Employer-related investment includes shares in the employer company, loans to the employer and land and buildings occupied or used by the employer.

The Occupational Pensions Board said such investments should be limited to 5 per cent of the assets of a pension scheme, while the National Association of Pension Funds has recommended no self-investment by company pension schemes as good practice.

Mrs Shephard told MPs that employers had outlined the possible effects on their businesses and pension schemes if they were required to dispose of such employer-related assets too quickly.

Information on the extent of self-investment is sketchy, and the Government and the NAPF dispute whether the number of companies involved - at least 23 per cent - is static or rising.

The proposed survey will provide the Government with up-to-date information on the extent of the practice, the sectors in which it is concentrated and the difficulties that will arise in limiting self-investment.

The report is intended to be completed by the summer so that the Government can introduce the necessary regulations soon after the bill receives royal assent.

Power companies forgo two properties

By Maurice Samuelson

THE GOVERNMENT has stripped the main electricity generating companies of two London properties, believed to be worth well over £100m, before the companies are sold as part of the industry's forthcoming privatisation.

It has done so to avoid charges of selling off valuable public assets too cheaply, and thus allowing the new owners to make big profits on the open market.



John Wakeham: fears repeat of row over Rover sell-off

The properties are Sudbury House, the 17-storey headquarters of the Central Electricity Generating Board near St Paul's Cathedral, and Bankside Power Station, a disused oil-fired station on the opposite side of the Thames.

Under the share-out of the C&GB assets, Sudbury House, worth at least £75m, was to have been handed to National Power, the larger of the two generating companies that will inherit its non-nuclear power stations. PowerGen, the other non-nuclear company, was to have owned Bankside Power Station.

However, Mr John Wakeham, Energy Secretary, has decided to retain both buildings in the private sector by assigning them to Nuclear Electric, the new state-sector company that will operate the nuclear stations.

He apparently feared that if the generating companies had sold the sites to property developers, he would have brought about a repetition of the rows that followed the sale of Rover and the Royal Ordnance Company.

He therefore turned down proposals by National Power that the Government should be able to claw back part of any profits that would be made from selling Sudbury House.

Its precise value, provisionally estimated to be at least £75m, will be determined by the plans to redevelop the whole Paternoster Square area adjoining St Paul's Cathedral.

Bankside Power Station is also on land that attracts international interest, not least because of the area's association with William Shakespeare. A replica of Shakespeare's Globe theatre is being constructed nearby, and in the past year archaeologists have uncovered the original sites of the Globe and Rose theatres.

Although National Power's main headquarters are to be based at Swindon and Harrogate, it plans to keep 440 of its Sudbury House staff in London and will be seeking permanent accommodation for them.

Mr John Baker, chief executive, yesterday said that it would not be convenient for them to leave Sudbury House until after the company is floated next year.

Sudbury House also accommodates some Nuclear Electric personnel.

Property unit trusts shrink as commercial sector concern rises

By Paul Chesswright, Property Correspondent

FEARS of a further downturn in the commercial property market are prompting pension funds and charities to withdraw their investments from property unit trusts.

Figures from the Association of Property Unit Trusts show that in the last quarter of 1989, the value of units redeemed from the trusts was more than three times the amount of new subscriptions.

Redemptions have continued during the current quarter, said Mr Peter Archer, the chairman of the association and surveyor to the managers of the Lazard Property Unit Trust.

Mr Archer said: "All funds are experiencing redemptions. It is unlikely anybody is raising new money. We are in for a period of shrinkage."

UBS Phillips & Drew, the stockbroking firm, which runs a service matching those who want to sell units with those

who want to buy them, reported that there were more demands to sell than there were to buy.

Property unit trusts - so-called unauthorised trusts - are used by tax-exempt funds to invest relatively small amounts in property.

Regulations are being drawn up for authorised trusts that would be open to the public to invest in.

Pension funds and charities stepped up their investment in trusts from mid 1987 onwards, when the property market was rising, but seem to have become progressively more disenchanted during the second half of 1989.

In the year to last September, new subscriptions in the trusts were £71.2m and redemptions came to a total of £23.7m.

However, in the last three months of 1989 redemptions were £63.2m while new

subscriptions amounted to £20.1m.

At the end of last year, the pension funds and charities had £2.12bn invested in property unit trusts, fractionally less than the amount invested three months before. Just over £1.5bn was invested in UK property.

Redemptions are taking place at present against the background of slipping returns. It can take up to six months for a fund to receive its money back.

In 1988, according to the UBS Phillips & Drew index, which is based on the performance of 12 trusts, the average annual rate of return was 32.9 per cent. Last year, however, the return was 23.1 per cent.

That performance has mirrored the property market, from which year-on-year returns reached a peak in January 1989 and have been sliding ever since.

Pessimism after downturn in 1989 hotel occupancy

By David Churchill, Leisure Industries Correspondent

HOTELS in England experienced a downturn in trade last year, according to a report published today by the consultancy firm Horwath and Horwath.

The survey of 550 hotels shows that the average occupancy rate for English hotels dropped from 60 per cent in 1988 to 57 per cent last year.

Mr Geoff Parkinson, a Horwath and Horwath director responsible for the study, said: "This means that room occupancy last year only reached 1986 levels and indications so far suggest that 1990 will not see any dramatic improvements."

London hotels have been particularly badly affected by the decline, with average room occupancy falling to 69 per cent last year, down from 73 per cent in 1988 and 76 per cent in 1987.

The cause of the slide in occupancy rates is uncertain, according to the survey. "There does not seem to be a direct correlation with the rise

in interest rates," says Mr Parkinson. But general economic uncertainty seems to have been a contributory factor.

The fall in hotel occupancy would have been greater had it not been offset by an increase in the number of overseas visitors booking into English hotels and in the lengths of their stays.

The survey also shows that the decline in occupancy levels last year was fairly evenly split between business and leisure travellers.

The slowdown in room occupancy in English hotels comes at the same time as a glut of UK hotels on the market.

Last week, the Bass brewing and hotel group announced that it was seeking offers for its 47-strong Crest hotel chain - likely to fetch at least £400m - while Allied-Lyons put its Embassy hotel chain on the market before Christmas.

Hotel Occupancy Survey 1989. Horwath and Horwath/English Tourist Board, 8 Baker Street, London W1, E27.

Consumption of chocolate falls but imports up 53%

By Clay Harris, Consumer Industries Editor

BRITAIN became a net importer of chocolate confectionery for the first time in 1989, according to Manufacturing Strategies for Industry estimates published today.

Because of the hot summer, however, British consumption of chocolates fell by 1 per cent, and many tonnes of the imports went into stocks or were wasted.

MSI, the research group, said a 53 per cent surge in imports to 84,000 tonnes, compared with a 14 per cent rise in exports to 73,500 tonnes, had not been explained.

Its best suggestion was that foreign manufacturers operating in the UK had increased imports from subsidiaries in anticipation of another strong rise in demand like that in 1988. It expected the UK to return to being a net exporter.

Cadbury Schweppes, which noted the summer's depressing effect on chocolate sales in its 1989 results recently, retained market leadership, although its share slipped from 29 per cent

to 28 per cent. The combined share of Rowntree and Nestlé, the York-based confectioner in 1988, remained steady at 26 per cent, just ahead of US-based Mars, unchanged at 25 per cent.

UK consumption of sugar confectionery fell by 3 per cent in 1989.

Cadbury's acquisitions of Trebor and Basset increased its market share to 26 per cent by the year-end, more than double that of its nearest rival, Rowntree.

The main growth areas in chocolate confectionery are premium, Continental-style chocolates and products containing "healthy" ingredients such as cereals, nuts and dried fruit. The greatest prospects in sugar confectionery were for softer chewy products, such as gums and pastilles, MSI said.

MSI Databriefs: Chocolate Confectionery UK and Sugar Confectionery UK. 32 Mill Green Road, Mitcham, Surrey CR4 4HT. £150 each.



7.10 AM "THE IRONBRIDGE"
M. SANJANA, MAN. DIRECTOR
RICOH UK PRODUCTS LTD, TELFORD.



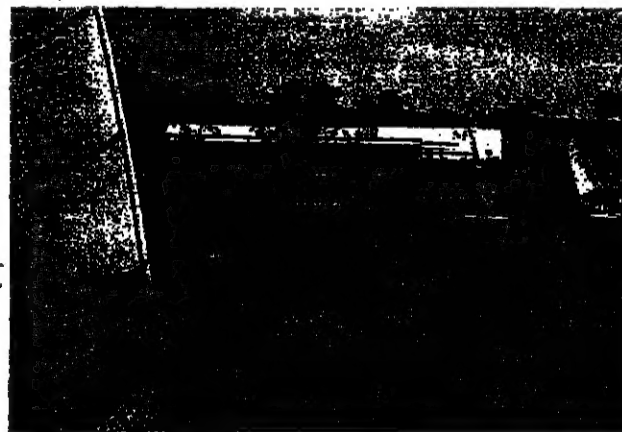
6.42 PM "SEVERN VIEW"
K. KUROKAWA, MAN. DIRECTOR
KYOKUMI EUROPE LTD, TELFORD.



10.23 AM "OBSERVING THE CHERRY GARDENS"
M. MORITA, MAN. DIRECTOR
MAGELL UK LTD, TELFORD.



5.04 AM "A DAY ON THE WRECKIN"
I. STEVENS, MANAGER
TOSHIBA INT. (EUROPE) LTD, TELFORD.



12.53 PM "PRIORSLEE LAKE"
A. TODA, MAN. DIRECTOR
NEC TECHNOLOGIES UK LTD, TELFORD.



11.07 AM "A DAY ON THE WRECKIN"
I. STEVENS, MANAGER
TOSHIBA INT. (EUROPE) LTD, TELFORD.



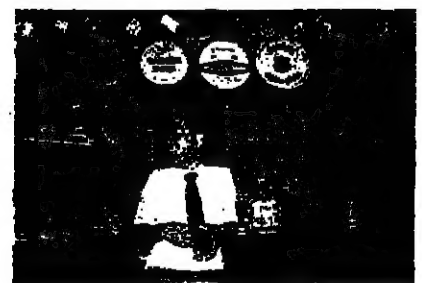
4.33 PM "COALPORT MUSEUM"
Y. YUGUCHI, MAN. DIRECTOR
EPSON TELFORD LTD, TELFORD.



10.12 PM "SELF PORTRAIT GEORGE & DRAGON"
T. UCHURA, MAN. DIRECTOR
ONRON ELECTRONICS UK LTD, TELFORD.



9.30 PM "100MM LENS ASA 100 F22 EXPOSURE 10 MINS"
K. TAKAGI, MAN. DIRECTOR
NIMON UK LTD, TELFORD.



10.12 PM "SELF PORTRAIT GEORGE & DRAGON"
T. UCHURA, MAN. DIRECTOR
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UK NEWS

Society lingers at the crossroads

David Barchard on the aftermath of a flotation that never was

THINKING strategically is a great luxury, in the opinion of Mr Ben Thompson-McCausland, chief executive of National & Provincial Building Society. "In this society," he says, that luxury exists.

On Wednesday, the society, which has assets of £8.4bn, will announce pre-tax profits for 1989 of about £108m. That represents a rise of 14.8 per cent on the £94m of 1988 and 12.8 per cent growth in the society's assets.

It is a fairly respectable end to a grim year in which National & Provincial has dropped plans for a stock market flotation, had a serious boardroom upheaval and lost several people from among its senior management.

Its profits growth is nevertheless much weaker than at either Cheltenham & Gloucester or Bradford & Bingley - the two societies immediately below it in the league. Both the latter increased their pre-tax profits by more than 25 per cent.

An extraordinary item of near £6m in write-off costs is the main relic of the building society flotation that never happened. A year ago, National & Provincial was sending out signals that it would follow Abbey National to the market early in 1990, in what would have been the second building society flotation.

However, in October there was a sudden change of direction and flotation plans have since been delayed indefinitely.

At the time, plans for the flotation were well advanced, with N&P believed to have already retained registrars. Just what went wrong is widely debated among the



Ben Thompson-McCausland: drawing a new logo

other building societies. Mr Thompson-McCausland blames the depressed state of the housing finance market. "We felt the market was definitely deteriorating," he said.

He describes as absolutely fallacious claims made in the press that National & Provincial was not given the go-ahead for conversion by the Bank of England. In the building society industry, several chief executives privately accept a simpler explanation. They think that as the society entered the final stages towards the launch, National & Provincial's board realised that it was not ready for it.

Mr Thompson-McCausland denies suggestions that Mr Richard Newton, N&P's chairman, has adopted a more dominant role in the daily life of the society since retiring last autumn as Bursar of Trinity Hall, Cambridge. Mr Newton was not available to comment.

In 1988, Mr Thompson-McCausland concedes that N&P constricted assets growth

in order to increase its profits. However, in a rapidly changing industry, it has faced challenges on several fronts.

One was to bring down management costs. Those soared after a merger with the Burnley in 1982 and have run consistently above the average for the industry, although they have steadily improved in the last three years.

Its core business has also not sparkled. N&P's share of net mortgage advances fell from 5.3 per cent in 1987 to 2.88 per cent in 1988, while its share of the building society savings market dropped from 2.78 per cent in 1987 to 1.68 per cent a year later.

N&P's strategic dilemma arises less from its performance record than from its place in the market. Too large to have a regional niche position, N&P is not yet large enough to join the top four societies and become an all-round player in the UK retail banking markets.

That means that its customers expect a fairly wide range of personal banking products - hence N&P's Visa card, launched last year - but high costs deter the society from starting a cheque book current account.

For the past three years, N&P has set its sights on growing to become one of the top 15 players in the UK personal financial market by 1993. The original target date of last year was 1989.

In pursuit of that goal, Mr Thompson-McCausland, who joined N&P from London Life in 1987, has pushed diversification and management restructuring. By introducing a new logo - an eyesless but cheerful bee - he has raised the

society's profile and made it one of the best known in the market.

He has also been able to develop the other areas in which N&P has an advantage. Its treasury operation is regarded as one of the best among the building societies.

On the other hand, it has stayed out of the costly race to buy up estate agencies. In a pioneering move last year, N&P set up its own life assurance subsidiary in a joint venture with General Accident.

"The trouble is that the turnaround in corporate culture has just gone too fast. We get a stream of job applications from N&P staff," says the chief executive of a neighbouring society.

He adds: "If a society changes too fast, it risks alienating its traditional customer base and its own branch staff."

Some of the losses have been deliberate. In January, N&P shed 80 jobs in a restructuring exercise that shut six branches and reduced the number of districts from 80 to 44, eliminating down the number of middle managers.

However, there have been other departures that bode less well. Mr Kenneth Andrews, marketing director, quit the society in January amid much publicity, voicing concern over the society's strategy.

Since then, N&P's chief strategic planner and its brand specialist have also gone. A new finance director is being sought; the choice of candidate to fill the post will be a clue to the direction the society intends taking.

For events seem to have left N&P, almost alone among the top ten building societies, still waiting at the crossroads.

Volume of direct mail doubles in decade

By Alice Rawsthorn

THE VOLUME of direct mail - "junk mail" - doubled in the 1980s so that the average household now receives about five unsolicited items of mail every month.

The latest statistics from the Direct Mail Information Service show that more than 2bn items of direct mail were delivered in the UK last year, compared with fewer than 1bn at the start of the 1980s.

Developments in information technology have helped companies to use direct mail more efficiently to reach particular groups of consumers. The introduction of 0800 telephone lines, used for special ordering services, has made it easier for consumers to buy products and services advertised by direct mail.

As a result, direct mail has become one of the most busy-

sent areas of the marketing service industry. The amount of money spent on direct mail rose steadily throughout the 1980s. It rose by 23 per cent to an estimated \$560m last year, according to the DMS.

Mail order companies are the most active users of direct mail, followed by insurance companies, banks, retailers and travel companies are also regular users.

Some households are more likely to receive direct mail than others. The wealthier the household, the more likely it is to be bombarded by junk mail.

Almost all households receive at least one item of direct mail a month. But AB households - the most affluent social group - receive at least two unsolicited letters every week.

APPOINTMENTS

United Dominions Trust makes senior changes

Mr Hamish Paton, recently appointed managing director, TSB Banking Services, which includes UNITED DOMINIONS TRUST, additionally becomes executive chairman of UDT. Mr John Davies is promoted to managing director from director, field operations. He is succeeded by Mr Roy Stier who was director central operations. Mr Gordon Bird becomes director, business finance operations, taking responsibility for asset finance and fleet finance. He was director, technology and management services.

COUNTY NATWEST INVESTMENT MANAGEMENT has appointed Mr Nigel Lester as chief executive. He was with Aetna Life & Casualty, US, where he was senior vice president and chief investment officer, international division.

CITIBANK has appointed Dr Paul Chertkow as chief currency strategist from March 15. He joins from Drexel Burnham Lambert where he is managing director and chief international economist. He will be the bank's principal European spokesman on currency economic matters. Before joining Drexel in February 1989 he was managing director, economics, with Security Pacific Hoare Govett.

SCHROEDERS has appointed as non-executive directors Sir Ralph H. Robins, deputy chairman of Rolls-Royce, and chairman of Rolls-Royce Industries, and Mr Charles J.F. Simons, group chief executive of the Daily Mail and General Trust.

Mr Fred Poulton has been appointed director of corporate banking, UK, NATIONAL WESTMINSTER BANK. Mr Alistair Beeston has succeeded him as director of corporate finance.

BRITISH RAILWAYS BOARD has appointed Mr Charles Brown as director, policy unit, from April 16. He succeeds Mr Richard Allen who returns to the Department of Transport.

LLOYDS BANK has appointed Mr Norman Mitchinson as general manager, support and

development, UK retail banking. He was assistant general manager, systems and support services. His responsibilities will include managing change throughout the bank's UK retail operations, including equipping and supporting the retail branches.

Mr Bill Kennedy has joined the McLAREN BUILDING GROUP, Glasgow, as construction director.

Mr Ulrich Zierke has been appointed a deputy chief executive, and Mr Ramlit Mathrani, Mr Michael Milbourn, and Mr Peter Sargeant have been appointed managing directors of CHARTERED WESTLB, jointly owned by Standard Chartered and Westdeutsche Landesbank.

THE PROPERTY TRUST has appointed Mr Charles Y.K. Lee as a non-executive director. He is a senior partner with a firm of Hong Kong solicitors, and is on the general committee of the HK stock exchange. He is also a director of a number of HK companies, including the Cheung Kong, Hutchison Whampoa, HK Electrical Group, Henderson Group, and New World Group. PIC HERE ID NO: 377



Mr Derek Fairbairn (above) has been promoted to vice chairman of BRITISH GYPSUM, a subsidiary of BFB Industries. Mr Fairbairn was previously on the British Gypsum board as deputy managing director (overseas) and more recently as a director of BFB Gypsum Industries. Mr David Pougher, production manager, has been promoted to production director of British Gypsum.

Before we saw
a customer
in every individual.

Now we see
an individual
in every customer.

Businessman is a businessman is a businessman is a businessman.

That, in a nutshell, is how we viewed our customers in the 80s.

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Emerging is a far less predictable indi-

vidual. One whose needs vary just as much, whether he or she happens to be in business or not.

Enough of philosophy, here's the beef.

Together with a few enlightened partners, we're now busy building a network of airlines, hotels, and other services that will

embrace the world.

As well as your needs, no matter where you are.

You may well want every conceivable service on your trip. Or maybe you relish the idea of travelling quite unassisted.

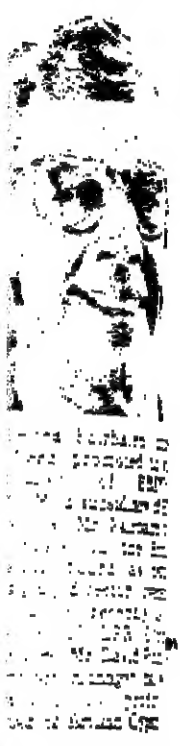
So be it.

The whole point is we'll let you decide what you need, and when you need it. Individual is an individual is an individual is an individual.

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UK NEWS

Scots Labour move on poll reform

By James Buxton, Scottish Correspondent

THE LABOUR Party in Scotland took an important step away from the first-past-the-post electoral system at the weekend but stopped short of explicitly endorsing proportional representation.

In a vote on the electoral system for a future Scottish parliament, Labour's Scottish conference in Dundee, Strathclyde, approved a resolution calling for a system that "fairly rewards parties with representatives broadly equal to the votes cast."

The card vote was 372,000 in favour and 285,000 against. The resolution referred to the inadequacies of the first-past-the-post system but did not specifically mention proportional representation.

A separate statement by Labour's Scottish executive which defined proportional representation was defeated.

Mr Donald Dewar, the shadow Scottish Secretary, said in his keynote speech later that the vote was "an indication of a wish to look at electoral reform. We got a statement of intent, not a solution."

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THE SCOTTISH Labour party yesterday reaffirmed its commitment to unilateral nuclear disarmament, contrary to the defence strategy adopted by the party's national conference last year.

Delegates backed the removal of all nuclear weapons in the lifetime of the next Labour Government - against Labour's official policy of disarmament by a mix of multilateral, bilateral and unilateral means.

The majority, however, was considerably narrower than in past years and the party's national leadership appeared relaxed over the decision.

A party official said: "There has been a long-standing and emotional commitment to unilateral disarmament."

Supporters of proportional representation, however, regard the outcome as an historic first step on the road to achieving their objective.

Labour is a big beneficiary of the first-past-the-post system in Scotland, having nearly 70 per cent of the Scottish MPs on the basis of 42 per cent of the vote at the 1987 general election.

There is widespread acceptance that a replica of that system for electing a Scottish par-

liament, which Labour is committed to introducing if it wins the next general election, would be unacceptable.

The issue of proportional representation has come to a head because the party has to decide its stance for the constitutional convention.

Both Labour and the Liberal Democrats are represented on the convention, which is drafting a constitution for a Scottish parliament.

The rejection of the explicit

eral disarmament in Scotland but the party is moving away from it fast.

The official continued: "The vote last year was overwhelming but this time it just squeaked through. They are coming into line."

In another decision that reflected a vote at the 1989 conference, delegates supported by a 12-1 majority calls for the next Labour Government to cut spending to the western European average, thus freeing resources for peaceful purposes.

The spending decision, like that at last year's annual conference, is not supported by the party leadership, which has made clear that such votes would not take precedence over Labour's continuing policy review process.

It is a vigorous debate Mr George Foulkes, MP for Carrick, Cumnock and Doon Valley, said Labour was being "bounced into this debate by a few Liberal Democrats."

He urged the party to take its time, and to reject a system that could strengthen the power of party officials and hand control to small minority parties.

Mr Gavin Strang, MP for Edinburgh East, said: "If you are serious about a Scottish parliament then we have to recognise that we cannot insist on first past the post."

Mr Gavin Laird of the AEU engineers' union, which with the Transport and General Workers' Union has played a crucial role in swinging Labour in Scotland towards proportional representation, said supporters of the status quo wanted "power at any price."

He called on Labour to "set an example for Westminster because once we win in Scotland we will win at Westminster also."

Mr Dewar also struck a cautionary note on the process of constitutional reform, calling for "practical, sensible reforms which a Labour Secretary of State can recommend, that a Labour government can deliver and the House of Commons will pass."

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Neil Kinnock: address to conference on Friday

NEWS IN BRIEF

Business rate divides directors

THE new uniform business rate has drawn a "very mixed" response from company directors, an Institute of Directors survey showed yesterday.

The rate was "good news for northern manufacturers who have suffered an excessive rates burden for many years, and bad news for retailers in the south - in other words, good for exports, bad for imports," the IOD said.

The uniform business rate, which comes into effect on April 1 with the poll tax works out at about 35p to each pound of a business property's rateable value. Directors have until September 1 to appeal. Just under half of the 200 directors polled said they were considering appealing and 42 per cent said their new overall rates bills would be higher.

Four out of five directors, however, thought that the new business rate values would not significantly affect the viability of their businesses.

Market warning

THE single European market will provide "only meagre pickings" for British industry and half Europe's companies will cease to exist in their present form by the end of the decade, it is claimed today.

An article in *IS*, the magazine of the Industrial Society, says British companies would have to act fast to survive in the new competitive environment and gain from the single market would be "extremely modest."

The warning is given by Mr Anis Rajan, author of 1992: Europe's Zero Sum Game, to be published by the Industrial Society.

He predicts that fierce competition and a new focus on customised goods and services will produce radical changes in the employment market. Many people will lose jobs because they lack skills needed by Europe's changing industry.

Unemployment, concentrated in manufacturing, will also be exacerbated by what the author terms "barriers to labour mobility" between regions and countries.

Bread additive ban

POTASSIUM bromate, a flour improver, is to be banned from British bread from April 1, but brewers will be allowed to continue to use it in making as long as more refined testing techniques fail to show any trace of it in beer.

The Federation of Bakers, members of which bake three out of four loaves sold in Britain, stopped using potassium bromate last autumn, when new tests disclosed that minute traces had survived baking in some bread.

Pension launched

THE City of Glasgow Friendly Society has launched a pension plan with contributions as low as £1 a week and what the society claims is a unique home collection service.

It is aimed at the self-employed and workers whose companies do not provide a pension scheme.

Belfast shooting

A ROMAN Catholic man was shot dead by loyalist gunmen in west Belfast yesterday.

He was hit as he worked on his car near the Falls Road, as Republicans prepared for a commemoration parade for IRA men.

The gunman was in a car hijacked earlier in the Protestant Shankill Road area. Sinn Féin said the victim had no Republican connections.

Study urges more tax on alcohol

By Rachel Johnson

THE EXISTING structure of alcohol taxation is a "hangover from the past," according to a report advocating a wholesale reform of the system in this month's Budget.

The report, published yesterday by the Institute for Fiscal Studies and financed by Alcohol Concern and the Health Education Authority, attacks the present taxes on economic, health and social grounds.

It points out that main alcohol duties have been largely unaltered in the past two Budgets, so their real value has fallen. Real incomes and alcohol consumption have both risen over the same period.

Alcohol duties should therefore be increased at least in common with inflation, but that would add 1.7p on a pint of beer, 6.4p on a bottle of wine and 42.4p on a bottle of spirits, according to Alcohol Concern.

Up-rating excise duties might produce an estimated £200m in revenue and help to prevent excessive use, but there was little evidence that the Chancellor would adjust alcohol duties in this Budget.

"Such a policy has little regard for health and social considerations," the IFS report says. Indirect tax harmonisation in 1992 would mean a further big cut in alcohol taxes.

The IFS proposes a levelling-up of all alcohol duties to the higher band currently paid on spirits. It says that would not have a "disproportionately unfair" effect on lower-income households.

Institute of Fiscal Studies commentary C21, *The Structure of Alcohol Taxes: A Hangover from the Past?* By Paul Baker and Stephen McKay. IFS, 180-182 Tottenham Court Road, London W1P 9LE. 25.

Kinnock considers how much to give away, to win

Joe Rogaly argues that Labour's chances may be best without the security of first-past-the-post voting

SCOTLAND may yet lead the way to a reform of the British constitution. A small step was taken on Saturday when the Scottish conference of the Labour Party told its executive to come up with "concrete proposals regarding electoral reform."

It could be a step forward or sideways, depending on your point of view. Supporters of proportional representation for a Scottish Assembly of the future regard it as a step forward; the national Labour Party leaders, including Mr Neil Kinnock's advisers, like to encourage the notion that it is at best a sideways move, designed to keep proportional representation at bay.

Mr Kinnock and his circle should think again. They could start by re-reading the text of Saturday's resolution, which specifies a system that "fairly

rewards parties with representatives broadly equal to the number of votes cast." If that is not a definition of proportional representation, it is hard to say what is.

Yet proportional representation is not called by its own name in the resolution. That is why the national leaders of the Labour Party think there is still time to fight a rearguard action. They are too excited at the thought of gaining sole power in Westminster to see that sticking to first-past-the-post in Scotland will make it harder for them to win a general election.

In political terms, proportional representation (or, alternatively, the single transferable vote) is the least the Labour Party can offer the Scottish constitutional convention, a supposed all-party gathering. The Conservatives

have declined to participate in the convention, and the Scottish National Party laid down impossible terms. That leaves the former Alliance parties and the Greens, most local authorities, and the churches.

If Labour is to win their acquiescence in a new policy, and reach out to wavering in the other parties, it must come up with something that does not imply permanent Labour administration. First-past-the-post voting would probably entrench Labour in a Scottish assembly until well into the next century; proportional representation or single transferable vote would give the others a chance.

A complete failure of the constitutional convention would leave Labour without any credible alternative to the nationalist policy of independence for Scotland. That could

result in a draining away of support for a few key constituencies. The Tories would increase their Scottish representation at Westminster in the next general election at a time when they are almost certain to lose seats nationally.

THIS puts Labour on the spot. Every seat lost to the Scots or the Conservatives north of the border would have to be made up for in the more difficult territory down south.

Even when this argument is accepted, the fear in London remains. Grant proportional representation in Scotland and it will have to be used in elections for Northern Ireland, Wales and Labour's proposed English regional assemblies, not to mention the elected second chamber to be put in place

of the House of Lords and, of course, future elections to the European Parliament. Although all of this is implicitly allowed for in Labour's policy review, the closer it comes, the more it is disliked by the anti-proportional representation members of Labour's front bench, of whom the Deputy Leader, Mr Roy Hattersley is the most conspicuous.

The reason is that if all that territory is lost to proportional representation, it will be extremely difficult to defend the final redoubt, the House of Commons itself. While Labour is so far ahead in the opinion polls, its more optimistic leaders imagine they have a chance of winning the next general election outright; they do not wish to share power after that.

What they will not confront is the possibility that they are kidding themselves. There are

still more than two years to go before an election must be held. It is highly improbable that the Labour lead will remain high enough for all of that time to give it the biggest electoral swing in history and an overall majority.

In those circumstances, Labour will depend in part upon winning voters who formerly supported the Alliance. Several polls indicate that they stand a better chance of doing so if they lean towards electoral reform. Thus it could be that to win at Westminster next time they have to accept proportional representation for Scotland and the other assemblies, and take their chances on one day having to share central power itself.

My guess is that if Mr Kinnock concludes that this is what he will have to do to win, he will do it.

OBITUARY

Lord Stewart: twice Foreign Secretary under Wilson

LORD STEWART of Fulham, who died on Saturday at the age of 88, served as Foreign Secretary twice in the Labour Governments led by Sir Harold Wilson in the years 1964-70 and held a number of other important Cabinet posts, including Secretary of State for Economic Affairs.

In 1979 he was given a life peerage and he was active in the House of Lords until his recent illness. But it will be as Mr Michael Stewart, the MP for Fulham for 34 years and as Foreign Secretary that he will be best remembered.

No one could claim that Michael Stewart, a schoolmaster turned politician, had great charisma. He was shy and

withdrawn and derided by political enemies, and sometimes even by colleagues, as dull and uninspiring.

Yet behind the self-effacing and quiet manner lay a strong will, considerable ambition and, above all, great moral conviction and social concern. Nor did the absence of flamboyance detract from his skills in Parliament, where he was widely respected for his intellectual prowess and capacity for clear exposition.

Michael Stewart first became Foreign Secretary in 1965, when he was switched from Education Secretary after the resignation of Mr Patrick Gordon Walker. At the height of the Vietnam war he had the

difficult task of warding off pressure from Washington to commit British forces to that war, while still fundamentally supporting the US position.

As a result, he came under heavy fire from the Labour left, which felt that the Wilson government was too sympathetic towards US policy in Vietnam. Acutely conscious of the need to bring the war to a speedy end, Mr Stewart appeared on Soviet television in December 1968 to appeal to the Soviet government to join Britain in calling a conference of all governments involved in the war.

Appointed First Secretary of State and Secretary of State for Economic Affairs in August

1969, Mr Stewart was responsible for introducing the Wilson government's controversial prices and incomes policy. He clearly looked upon the measure as bringing greater justice into the distribution of wealth.

"I look forward to a time when you can work the prices and incomes policy, not in this harsh, unfriendly atmosphere, but as a permanent element of national life," he said in July 1967.

In spite of his apparent diffidence, Mr Stewart very much considered himself a contender for the highest government office.

In March 1968, after the resignation of Mr George Brown, Mr Stewart was back at the

Foreign Office, where he stayed until Labour's defeat in the 1970 general election.

Michael Stewart's determination to succeed was evident from an early age. Starting his education at a London County Council elementary school, he won a scholarship to Christ's Hospital and went on to Oxford, where he gained a first-class honours degree in Philosophy, Politics and Economics and became President of the Oxford Union.

Lord Stewart's wife, a magistrate and hospital governor, was given a life peerage in her own right as Baroness Stewart in 1975. They had no children.



Lord Stewart of Fulham: great social concern

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- Accordingly, the Subscription Price (per share) of the above mentioned Warrants will be adjusted as follows:

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- Accordingly, the Subscription Price (per share) of the above mentioned Warrants will be adjusted, effective 1st April, 1990 Tokyo time, as follows:

Subscription Price before adjustment	Yen 975.20
Subscription Price after adjustment	Yen 928.80

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In its capacity as Principal
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Left-wing unit calls for green tax

A CALL for higher taxation on environmentally damaging products, with correspondingly lower tax rates on "green" products, is made today in a report published by the Institute for Public Policy Research, the new left-wing think-tank, writes David Thomas.

The report could be important in prompting a shift in Labour Party thinking towards taxation-based charges as a

means of tackling pollution. Until now, the Labour Party has tended to support a regulatory approach.

"It would be particularly unfortunate," the report says, "to perpetuate the idea that the use of economic instruments is a right-wing approach to environmental policy, while the regulatory approach is more ideologically sound for the left."

The report proposes 25 per cent value added tax (VAT) on environmentally damaging products such as phosphate-based detergents or batteries using mercury or cadmium.

Those higher charges would be complemented by reducing VAT to zero on energy-conservation products and on services that discourage product obsolescence.

Green Taxes. IPPR, 18 Buckingham Gate, London SW1E 6LB. 25.

Ashdown resurrects Democrats' ambitions

By Michael Cassell, Political Correspondent

MR Paddy Ashdown, the leader of the Liberal Democrats, yesterday launched an attack on the Conservative and Labour parties and resurrected his party's ambitions to create a left-of-centre political force capable of forming an alternative government.

Mr Ashdown, speaking at the end of his party's two-day spring conference in Cardiff, said he was determined to make the Liberal Democrats the "moral voice" of Britain. The job of his party was not to support the present political system, but to break it.

With the party still languishing in the opinion polls, Mr Ashdown claimed that, after the turmoil that followed the split of the Liberal-SDP Alliance, the foundations were in place to establish "a great reforming party."

He accused the Tories of debasing Parliament and attacked Labour for being prepared to "discard any principle, abandon any convictions, adopt any policy, provided only that it could gain votes in the process."

In defining the Democrats' political stance, Mr Ashdown said it was "a free-market



Paddy Ashdown: "a great reforming party"

party, tough on competition; European in outlook and aware of the social and environmental context in which Britain must operate."

He said there remained "deep flaws" at the heart of the Labour Party that meant it would prove incapable of climbing the electoral mountain it faced.

In the south, he said, the Liberal Democrats were the challengers to the Tories in seats that Labour had to win for general election victory.

NOTICE OF OPTIONAL EXTENSION BY NOTEHOLDERS CENTRAL-EUROPEAN INTERNATIONAL BANK LTD

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EXTENDABLE AT THE NOTEHOLDERS' OPTION TO THE INTEREST PAYMENT DATE FALLING IN AUGUST 1992

Notice is hereby given to the holders of the notes described above that, pursuant to the provisions of the Fiscal Agency Agreement dated as of August 13, 1984 and condition 6 of the notes, these notes, which will mature on August 16, 1990, are subject to extension at the option of the noteholders to the interest payment date falling in August 1992. To exercise the option in respect of any note, a noteholder must surrender such note to the Fiscal Agent during the period commencing on 1st May 1990 through and inclusive of 30th June 1990 together with all unremitted coupons. The Fiscal Agent shall retain the notes so surrendered until August 16, 1990 upon which date the exercise of the option shall be so endorsed by the Fiscal Agent and the maturity of the note shall be extended to the interest payment date falling in August 1992.

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Man - technology

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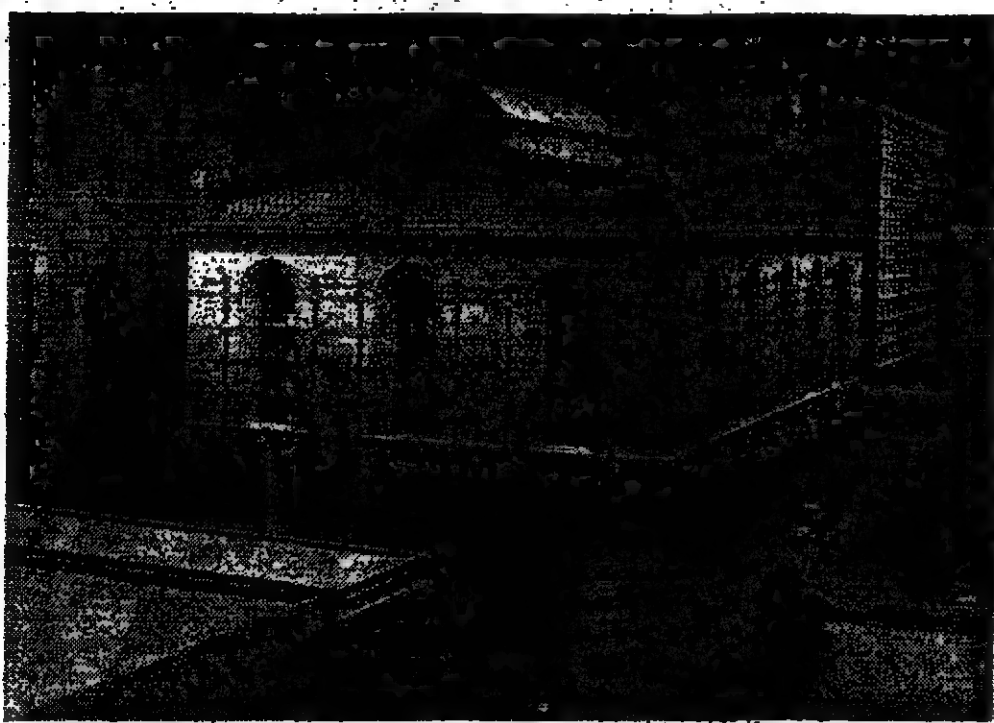
Quality has nothing to do with nationality

I saw an amazing sight in Chicago the other day. In sub-zero temperatures I examined the substantial concrete skeleton of the new Chicago Public Library. It resembled an enormous Babylonian desert fort with thick, sloping, battered walls pierced by giant openings. It was almost impossible to tell whether the bones were waiting for the flesh or had already been abandoned to the harshness of the winter.

The Harold Washington Library Centre, named after the city's first black mayor, will be the largest public library in the US. It is some five hundred thousand square feet of space and will cost in the region of \$140m. The first phase of the British Library at St. Pancras in London, which will open in 1992, will be under 75,000 square feet. The architects who won the recent competition are a Chicago firm, Hammond Beery and Babka, Inc., who are not particularly well known here but have come into prominence as one of three architectural practices chosen to work on the redevelopment of Paternoster Square, next to St. Paul's cathedral.

Chicago is undoubtedly the great American architectural city - there must be something in the soil or the air that has nurtured architects and architecture since the city began. The names of its creators sound like a litany of bearded bearded men: Louis Sullivan, Daniel Burnham, Frank Lloyd Wright, and Mies van der Rohe. All these great names are there, and alongside them is an anonymous but strong tradition of skilled and innovative construction. It is no coincidence that Chicago is home to the world's tallest building as well as the world's largest firm of architects.

It is not surprising then to find that the recent architectural competition established some important new parameters. In some ways it was controversial: it asked for a team of architects, builders and developers, that was pre-



American architect Thomas Beery's design for the Harold Washington Library Centre in Chicago: there is plenty of evidence here that his firm will enhance the Paternoster Square redevelopment proposals next to St. Paul's.

pared to compete for the contract to design and build the library, which naturally tended to rule out any inexperienced practices and encouraged several shotgun marriages between smaller firms; and most interesting was the condition that made the winning team responsible for any cost overruns in the project. How many bankruptcies would have resulted had that condition been applied to any similar public project in Britain?

The idea of the free public library originated at the same time in England and America, and flourished in England due to a major stimulus from America in the form of the Carnegie Trust. Americans seem less shy about stating their ideas than we are. In 1787 the Redwood Public Library in Newport was described as an institution to which "the curious and impatient Enquirer and the the bewildered Ignorant might

freely repair". In their description of the Chicago library the architects say that "it must express the aspirations of its citizens in a true and concrete manner".

The Thomas Beery design (he is the leader of the design team) expresses a mixture of aspirations. First of all the main library occupies one whole city block in the South Loop area of the city. Following the precepts of Daniel Burnham's plan for the city, this public building is distinguished from the dense mass of commercial buildings by the scale of its architectural detail. The design adopted is a form of Beaux Arts classicism with a strongly defined top and base to the building. From a modestly rusticated ground floor rise smooth masonry walls, which are pierced by giant arched windows on the main facade. Above these at the ninth floor

risers a vast glass pediment topped by elaborate metalwork decoration. Artists will be working with the architects on the decorative aspects of the scheme and the roof line is imaginatively enlivened by giant scrolls.

The style was one of the least discussed aspects of the design when it was announced as the winner. This is, I am sure, because Beery's firm knows Chicago so well and its scheme has just the right qualities of monumentality, familiarity, richness and decoration. It has: resonances of great 19th-century libraries, both Boston's Public Library by McKim, Mead and White and the great Bibliothèque Saline in Paris by Henri Labrousse. The architects are aware of these precedents but are also fully conscious of the fact that modern library practice does not always fit easily into the older style of build-

ings. In Chicago there may be a problem of relating spatial definition to the dream of total flexibility, but it is one that Thomas Beery is well capable of solving. He has expressed his desire to make "spaces that will live in the memory." His public circulation areas and the top floor winter garden will provide distinguished and formal areas while book storage and reading areas have their own distinctive and consistent well serviced characters.

Artists are to be involved in the iconographic programme for the new library in a variety of ways. There will be sculpted metalwork on the exterior and mosaic floors indoors. Painted murals and fountains also play a large part in the main public areas. Enrichment within a concrete and structural programme is the right and natural approach.

There is plenty of evidence in the Chicago Public Library project that the inclusion of Thomas Beery, alongside Terry Farrell and John Skidmore, will enhance the Paternoster proposals that are currently in preparation. Architecture is either good or bad and quality has little to do with nationality. It was unhelpful of Lord St. John of Fawley, who is currently Chairman of the Royal Fine Art Commission, to speak at a dinner in London last week of his distrust for American architects working in London. Certainly there are some bad schemes at work in the capital and some of them are American and many of them are British. His Commission has little power to do much about it.

The addition of the civilised skills of the team, the Yale University School of Architecture in the shape of Thomas Beery to the Paternoster team should certainly be welcomed. I expect Lord St. John of Fawley would have objected to the influence of Italians and the Conservancy takes, it claims, the view that architectural quality has nothing to do with nationality.

Colin Amery

The Four Horsemen of the Apocalypse

GLASGOW CITIZENS

The vehicle which made a star of Rudolph Valentino in 1921 resurfaces in 1990 as a crisply executed ensemble piece chronicling the ravages of war on a family with feet in two continents and loyalties to the two embattled nations, Germany and France.

Vicente Blasquez Ibanes's novel of 1916 sweeps from the cattle ranches of Argentina to the gutters of Bohemian Paris and the front lines of the first world war, dynasty-destroying apocalypse of the title.

It is a story of ashes to ashes in three generations, of new money melting old grudges and old grudges shattering young hopes.

Peter Granger-Taylor's adaptation for the Citizens is coolly abstruse, smartly filtering the storyline down to the cynical essentials which are relayed in Jon Pope's slick production through the doubling and redoubling of seven actors clad

throughout in black and white. The high collar and mantilla of 19th century Argentina soften to the louche lines of Parisian couture as Marcel, fugitive from an early war, takes his family home from the rolling acres of his dead father-in-law to his native France, while their cousins take up residence in German schools society.

While Marcel's son, Julio, idles away his youth on the fringes of artistic society, his cousins study to better themselves.

While he argues for an increased allowance, they expound on the sanctity of the German state. Julio's belated conversion to a fighting patriot is played by the loose-limbed and voluble Eamonn Walker without a drop of soldier-boy sentimentality.

Even as Sandy Welch's excellent Marcel puffs up with paternal pride, his son's body

is racked with bullet shots. The deaths of the German cousins are relayed baldly by Latin.

A production thick with irony is vivid in its evocation of the devastations of war, conjuring the panic of a retreating populace from actors scurrying across a bare stage accompanied by the crash of hammer on sheet metal.

Where this reading falls short is in the command of the central apocalyptic motif, which is relayed through a single, rather incongruous episode when the prediction of the four horsemen is recalled in the ghastly glare of up-lighting from an open suitcase.

In such a coolly composed production one loses touch with the passion needed to transform this from a moment of contrived theatricality into a vision of doom.

Claire Armitstead



Stephen Rea and Eileen Pollock in Terry Eagleton's Saint Oscar at Hampstead

Saint Oscar

HAMPSTEAD THEATRE

A visit by the Irish Field Day Theatre Company to the Hampstead Theatre is usually the signal for a lively, controversial evening. This production of *Saint Oscar* - which was reviewed here by Claire Armitstead when it was done in Belfast - proves to be no exception. Started 10 years ago by Brian Friel and Stephen Rea, the Conservancy takes, it claims, the view that architectural quality has nothing to do with nationality.

But how does *Oscar Wilde*, impersonated by Rea in a drawing English county voice, and a variety of garb from park to prison uniform, come into that provenance?

In spite of his Irish parentage, and his early training under Mahaffy at Trinity College Dublin, Wilde was not very interested in Ireland or at all Irish conclusions. The importance, remember, opens in The Albany, WI, and moves to a Manor House in rural England. It was on those social targets that Wilde's adult eyes were fixed, to see his downfall as part of a much wider victimisation

of the Irish at this period by the English. Eagleton, a literary critic by profession, based in Oxford, is adept at deconstruction, and in this entertaining play Wilde is thoroughly deconstructed, the process being marked by a series of onstage costume changes. We begin in Tite Street, Chelsea, in the period just before the trial in a drawing room that seems to have been designed not by Whistler but by Chirico (in fact by Bob Crowley).

It is dominated by a huge white plaster-cast of St. Sebastian, bristling with arrows, and a high step-ladder. Wilde sprawls over the furniture explaining that he is the only character in the play, uttering a succession of instant epigrams that have all the excitement of indoor fireworks.

Summoned by a little silver bell, the butler brings tea on a tray and the first visitor is Lady Wilde (Eileen Pollock), the preposterous poetess comes to chide her tardy son.

Her tears for the victims of the trial are shared by Richard Wallace (Seamus Moran), a character unknown to Wilde's biographer Richard Kilmann, who seems to have been invented by Eagleton, to give the political dimension lacking in the sources. This early

English socialist fulfils the role of the loyal friend played historically by Robbie Ross.

Their tears are all to soon confirmed by the trial, the highest of Trevor Griffiths' production, where the Judge (Jim Neill) sits aloft the step-ladder draped by his red robes while Carson (Brendan Gleeson) and Wilde confront each other across the stage. The stable-boys form a vocal group and give their evidence as a song, one of several musical numbers that enliven the evening. Gleeson's Irish brogue makes the telling point that here we have one Irishman versus another when they ought to have been on the same side.

Reading Gail where Wilde is visited by Boileau (Peter Hanly, immaculately narcissistic) and the spectacle of the lonely expatriate cradling an ashtray at the Café des Beaux Arts concludes the evening on an appropriately sombre note. It has its measure of laughs and rams home the perennial question of Anglo-Irish relations and that being so, to complain that the historical Oscar Wilde was a much more entertaining and compelling figure than this cardboard character, is no doubt beside the point.

Anthony Curtis

Schnittke, Shostakovich

BARBICAN HALL

The Barbican-Wigmore Schnittke series was brought to a close by last Thursday's London Symphony Orchestra concert, conducted by Mstislav Rostropovich.

This clinched the enormous success of the series, and the programme carried on over the last decade and a half, by which this composer has been transformed from a coterie-figure to one of wide popular appeal, seems to be complete.

Among Schnittke's large-scale compositions is, indeed, one of the most immediately involving. A peculiarly Schnittkean combination of elegiac atmosphere (inherent in the viola's own timbre) and dramatic urgency (no doubt encouraged by the specific virtuosity of the work's inspirer, Yuri Bashmet) informs its spans; the music creates a "whole world" in which the listener quickly learns to live, with complete trust in the composer's serene intent.

In an important sense the main issue at hand is the inter-

val of a minor ninth, quietly proposed by the viola and immediately picked up by the orchestra: the theme of which provides the characterising feature is both agonisingly dissonant and darkly secure, and it is these qualities that are tried, tested, and eventually stilled to peace, over tolling-bell sequences of a near-liturgical gravity.

The colouristic range of the concerto is at its widest in the second movement, where the soloist's part is a series of wistful, almost childlike fantasy; yet unlike some of Schnittke's earlier works, the larger frame of the musical construction holds secure in every part.

Bashmet's performance, a marvel of technical brilliance and acute sympathy, was supported every inch of the way by conductor and orchestra. Later, they went on to give a no-holds-barred account (at times riskily so) of the young Shostakovich's Third Symphony ("The Third of May") - a fascinating mixture of revolutionary patriotism (rather headachingly in the choral finale) and avant-garde experiment.

Max Loppert

London Sinfonietta

QUEEN ELIZABETH HALL

Friday's Sinfonietta concert was a tantalising, in the strict sense of proposing a lot of interesting things and leaving unsatisfied expectations. In particular, one expected the Dominic Muldowney premiere which concluded the evening - after three fairly intricate pieces that went extended acquaintance - to pack a direct, popular punch, which it didn't quite.

Lovely Hearts is a song cycle ("on one level" at least) of texts borrowed from the personal-aid section of the weekly *Time Out*, which Linda Hirst delivered in uniformly tough American show-style: presumably as instructed, without attempting to suggest individual characters.

But "on another level", as note-writers say, Muldowney's score is a tragic recombination of some late 14th-century music, of *recherché* metrical music, of stretching the accompaniment winds up to piccolo and down to tube, the effect was still *shockingly* - the solo voices often silent, sometimes strenuously busy, but never strongly characterised.

The outer movements, busily clever in the point of opacity,

were lightened by rapid contrasts and by sudden pop and minimalist gestures; the "nocturnal" music in the middle was a comedy of moose and moose. Academic jokiness, in fact - the sort of thing that disallows the composer of better, and yet Mason's music has a distinctive cut that deserves to be set in better relief.

The usual military programme-note by the composer Brian Farnborough was attached to *Le Chant d'Icarus* ("The Fall of Icarus"), after Breughel, a reverent self-diagnosis which only searching musical analysis could verify. In practical effect the piece depends upon its solo clarinet, here the brilliant, clear and agile Michael Collins; and despite Farnborough's disavowal of "any pretensions to illustrative function", its high-flying virtuosity and its rapturous trills not only make the listener's eye and ear, but supply ready excitement wherever the musical logic is too arcane to make itself felt. The performance was exciting, as for the music - well, we shall have to delve retrospectively.

David Murray

ARTS GUIDE

MUSIC

London

Moscow Conservatoire Orchestra conducted by Leonid Nikolaev. Russian and Italian opera: Mstislav Rostropovich. (Mon, 8pm). Barbican Hall (020 8891).

Royal Philharmonic Orchestra conducted by John Farrar. Ruth Winters (violin), Mozart, Barber, Mendelssohn, Pachelbel. (Tue), Barbican Hall (020 8891).

London Symphony Orchestra, conducted by Mstislav Rostropovich. Paul Edmund-Davies (flute) and Orlan Ellis (soprano). Shostakovich, Mozart. (Thurs), Barbican Hall (020 8891).

Paris

Vincent Coles recital (Mon), Salle Gaveau (06552950).

Seattle's Philharmonic Orchestra conducted by Carlo Maria Giulini. Schubert, Brahms (Mon). Théâtre des Champs Elysées (020 8891).

Symphony Orchestra of Paris conducted by Pierre Boulez. Shostakovich, Beethoven. (Tue), Auditorium des Halles (020 8891).

Dmitri Shostakovich, Pavel Gililov, Janáček, Schoenberg, Strauss, Schubert (Wed), Salle Pleyel (020 8891).

Orchestra de Paris conducted by Semjon Bychkov with the Paris Orchestra's choir conducted by Arthur Schnabel. Stravinsky, Rachmaninov (Wed), Théâtre de la Ville (020 8891).

Chamber Orchestra from Riga conducted by Tõli Lõhiste. László Béres (piano), Durán, Vivaldi, Bach, Bruckner, Stravinsky (Thurs), Auditorium des Halles (020 8891).

Brussels

Tokyo String Quartet plays Beethoven, Haydn, Janáček. Palais des Beaux-Arts. (Tue).

Milan

Ma Lavinia (violin), Bruno Giuranna (viola), Rocco Filippini (cello) and Niccolò Paganini (piano) playing Paganini and Brahms (Mon). Teatro Alla Scala (02 57 51 51).

Giorgio Stabile Orchestra conducted by violinist Liana Isakovic playing Vivaldi, Mendelssohn and Gershwin (Wed). Conservatorio U Verdi. (78001726).

Geneva

Georges Frétre conducting Rota, Ferreri and Dvorak, with Franco Patricchi (double-bass). (Mon, Tue) Auditorium in via della Concordanza. (0641044).

Mitsuo Miyake (cello) playing three Bach suites for solo cello (Wed). Teatro Olimpico (0653040).

Vienna

Vienna is host to two music festivals: Haydn Tage and the Vienna Festival. Tickets and information from Musikverein, Karlsplatz 8, Vienna (05 31 90, 05 31 90).

Also, Contemporary Austrian music is in full swing. Tickets and information from Ernst Weiser Festwochen, Leharstrasse 11, 1080 Vienna (06 59 16 75).

Der Kreis Experimental Theatre perform *R+J Musical*, an adaptation of Shakespeare's *Romeo and Juliet* by the young Soviet composer, Sergei Drenin (Tue-Sat). Ivo Pogorelich piano recital.

Haydn, Chopin, Liszt, Scarlatti, Brahms, Scriabin, Mussorgsky. (Wed). Vienna Conservatory. Haydn, Beethoven, Ravel, Brahms, Mussorgsky (Thurs).

Madrid

Vienna Chamber Orchestra conducted by Philippe Rémont (also piano). Mozart programme (Tue, Wed). Auditorio Nacional de Música (091 01 00).

Joachim Achucarro (piano). Chopin, Brahms, Schumann (Thurs). Auditorio Nacional de Música (091 01 00).

St Paul Chamber Orchestra of New York conducted by Christopher Hogwood with John Kimmurley (piano). Adams, Mozart, Stravinsky, Haydn. (Thurs). Auditorio Nacional de Música (091 01 00).

Barcelona

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New York

Marcello Pollack piano recital. Schumann, Berg, Schoenberg, Stravinsky (Mon).

March 9-15

Philadelphia Orchestra

conducted by Erich Leinsdorf with the Guarneri String Quartet. Haydn, Beethoven, Stravinsky, Ravel (Tue).

Boston Symphony Orchestra conducted by Seiji Ozawa with Anne-Sophie Mutter (violin). Bartok, Beethoven, Brahms (Thurs). Carnegie Hall (247 7000).

New York Philharmonic conducted by Klaus Tennstedt. Schnittke, Dvorak, Janáček (Thurs). 674 6770.

Washington

National Symphony Orchestra conducted by Lynn Harrell. Ives, Beethoven, Mahler (Wed). Kennedy Center Concert Hall (467 4800).

Chicago

Chicago Symphony, Daniel Barenboim conducting with the Chicago Symphony Chorus. Prokofiev, Tchaikovsky (Wed). Orchestra Hall (362 6664).

Tokyo

Tokyo Symphony Orchestra, conducted by Elm Hon Jo. Music by the Korean composer, Yun Isang. Suntory Hall (Wed) (496 5890).

Bruno-Léonard Gellner (piano). Beethoven programme. Suntory Hall, Orchard Hall (Thurs) (496 5890).

Japan Philharmonic Orchestra, conducted by Eryin Lukacs, with Toshiyuki Tsutsumi (cello). Brahms, Kabalevsky, Schumann. Suntory Hall (Thurs) (294 6911).

The Roches

DOMINION THEATRE

Try to locate The Roches in your friendly neighbourhood record store, and you might be directed to the folk section or then again to rock; more likely you'll be told nothing is available, but later on, later on, later on, Speak, their first in four years, seems to be making some headway.

But they have been doing much more than a decade, ever since Suzzie joined her older sisters Maggie and Tere to turn their act into a New York club act. Robert Fripp produced a couple of albums in the early 80s, matching their musical eclecticism with some wishful washy instrumental sounds, but then silence, until *Speak* showed that *sans* the Frispyr hand could still cut the ground from underneath every rock cliché and stand them on their heads.

And as their splendid show at the Dominion on Friday demonstrated, though some of the new breed of female singer-writers might share their quizzical unstarry view of life's misfortunes The Roches did it all first.

In their songs, which they underpin tellingly with guitars, keyboard and drum tracks (no room for superlatives on this tour) a host of musical worlds collide - folk ballads and straight rock, Broadway show songs and a close-harmony style that might have its

roots in the Andrew Sisters but has the spectre of Phil Spector (especially The Ronettes) hanging heavily over it too.

That sound - intricate, constantly varied, sometimes sickly sweet but always immaculately tuned - is extraordinarily seductive, so that the punch in their lyrics comes clothed in velvet. "It's just a job that fell through," sings a woman to her partner in the first verse of "Losing our job." "Don't worry darling it'll be alright," then the second switcher: "I don't believe a thing I'm saying, it doesn't seem like truth to me/Our love is still clinging/To the way it used to be."

Yet the show is anything but mournful. No one who can write a song called "The Anti-Sex Backlash of the 80s" can take themselves too seriously, and a lot is very funny in a New York, Woody Allenish way. Many of the songs came from the new album, but there were backward glances too - the final encore was "Leaving You" which could epitomise the Roches approach - harmonies dense-packed, lyrics suffocatingly intense. And there was room for their special version of the Hallequah Chorus, a capella musically faithful, yet perfectly integrated into the whole. There really is no one quite like them.

Andrew Clements

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End of the beginning

AFTER FIVE YEARS the process of reform in the Soviet Union has reached the end of the beginning. This is the main lesson of our special survey of the Soviet Union, published today. Should, or can, the West do anything to help the Soviet Union through the next decisive stage?

The changes in the Soviet Union are the greatest political event of the end of the second millennium. With further change inevitable, the only question is its direction: will the Soviet Union soon enjoy multi-party democracy under an executive President and be on the way to a market economy? Will the Party apparatus, in concert with disgruntled soldiers and redundant secret policemen, be struggling to return the country to the ideological deep-freeze? Or will there simply be chaos?

Balked by the conservatism of the higher echelons and the venality and sloth of the lower, Mr Gorbachev needed a weapon strong enough to break the heirs of Lenin. In glasnost and democracy he appears to have found that weapon. But defeating the Party is not enough. Mr Gorbachev has to find the authority and power to replace it. The new executive presidency is a part of the solution, but it will still depend on the Party.

The people are the second reef on which all may be wrecked. Ethnic conflicts are boiling up among some 100 peoples intermingled in 15 republics; the Union is fragmenting; meanwhile, in the Russian heartland intense suspicion of the communist bosses is balanced by equally intense suspicion of moves to a market economy. The Revolution was made in the name of a proletariat that did not then exist, whereupon all society was imbued with proletarian values. No wonder populist egalitarianism is a potentially decisive obstacle to change, which has grown bigger both with democracy and with economic failure.

Inflationary pressures

The economy is now in a limbo between the Stalinist stick and the market carrot. An unwise programme of "acceleration" in the early years of perestroika, the anti-alcohol campaign and the fall in the price of oil in 1986 greatly increased the Soviet budget deficit. Labour unrest and an ill-conceived move to independence for state enterprises have further exacerbated inflationary pressures.

Little wonder that the thriving activities of today are queuing and the black market. The patience of the people is remarkable, but not eternal. President Gorbachev's dilemma is that the measures that give hope of improvement may first create a popular explosion.

None the less, the risks of economic reform will have to be taken, if carefully. First of all, the macroeconomic crisis must be resolved, with elimination of the budget deficit, control over the provision of credit to enterprises and liquidation of the monetary overhang (through either an expropriatory monetary reform or the substitution of assets with a credible real value for liquid savings accounts). An administrative price reform must also be imposed, to be cushioned by rationing in the interests of vulnerable groups.

The peasants must be freed at last. They need secure title to their land and provision of inputs and services through a competitive market rather than local officialdom. The naive faith that investment will solve the Soviet Union's agricultural problem must be abandoned before there are as many broken tractors as kilograms of grain.

The industrial branch ministries should be abolished. Enterprises cannot be given complete freedom in Soviet circumstances, but they can be guided by taxation, by levies on capital, by interest on borrowing and by price controls, wherever they are monopolists. Pluralism in property ownership must also be introduced.

Finally, when there has been price reform, monetary stabilisation and economic decentralisation, the Soviet Union can start to move towards currency convertibility.

Instead of carefully constructed and radical reform there is to be yet another crash programme - this time to stabilise the consumer market in 1990. Gosplan, the central organ for state planning, rides forth once more. But set against the scale of the monetary overhang and the persistent budget deficit (a hoped-for fall to 8 per cent of gross national product in 1990 from 11 per cent in 1989) the current programme is at best a part of the solution.

Meanwhile, the radical ideas for market-oriented reform that were put forward by Deputy Prime Minister Leonid Abalkin last November are on hold. At this juncture, when President Gorbachev is assuming independent powers and the populace is losing patience, decisive action must at last be taken.

Such radical economic reform will challenge the Soviet people's sense of its own history and achievements, but there is no alternative. The old system cannot give prizes what they want, even if they do not yet understand this. In the face of widespread conservatism President Gorbachev must take the sorts of risks that he has in foreign affairs and domestic politics.

Western assistance

Can the West do anything to help? A case can certainly be made for huge official western assistance. After all, defence against the Soviet Union costs some \$300bn a year. If peaceful reform in that country could eliminate two-thirds of that sum in perpetuity, the present value of the annual stream of savings would be \$4 trillion (million million), little less than the GNP of the US or the EC.

The most effective form of official assistance would be mutual disarmament, because it benefits both sides. Western analysts believe the Soviet Union spends 13 per cent of its GNP on defence (in domestic prices). The peace dividend for the Soviet Union could be correspondingly huge. Moreover, as the Soviet Union disarms, Cocom controls on exports of technology should be eliminated.

The western private sector has an important role too, though commercial lending is unlikely to be the main actor. Soviet gross debt, at \$45bn in the beginning of 1989, remains modest in relation to the size of the economy. But it cannot be prudently increased by enough to make a real difference, at least before there has been substantial economic reform. More valuable could be management training, technical assistance and direct investment, not only for their immediate impact, but because they will further increase the pressure for economic perestroika.

Until economic and political reform have gone far further, substantial official assistance would be unwise. In the absence of radical economic reform, the funds would be wasted. When President Gorbachev is already being accused of selling out to capitalism, the offer of assistance must not give credibility to the charge. In any case, a Soviet Union dominated by a largely unreformed Communist Party is no fit object for Western largesse.

In this, the greatest issue of our time, the West remains on the sidelines. Even the natural urge to disarm must be balanced by an awareness of the fragility of Soviet politics. To convert this historically isolated, overcentralised and ramshackle empire into a democracy, with market economy to match, is an unprecedented undertaking. It cannot be achieved without risk; it may not be achieved without chaos. President Gorbachev will need courage and luck, but the governments of the West can offer little more than moral support.

David Buchan and John Wyles report on the EC immigration debate

Until now, "Fortress Europe" has been seen as a danger mostly to the European Community's commercial and financial policies. However, the pressures building up on its borders by people anxious to join the 8m non-EC citizens already inside, are now breeding more of a Fortress mentality among member governments than anxieties about the economics of opening the EC's internal market.

As western and eastern Europe open more doors to each other, EC countries are moving inexorably towards selective controls which risk being seen in the Third World as strengthening an existing bias against their emigrants. At the same time, non-EC citizens already living in the Community are now seriously concerned about the impact of the population flood from East into West Germany.

There is evidence, anecdotal as yet, that East Germans are beginning to displace some of West Germany's Turkish and Yugoslav immigrant workers, who are being pushed west into the Netherlands and France. They will not be welcome. Even President Mitterrand feels under pressure from racial incidents in France's schools, factories and ghettos, a pressure heightened by the political capital the extreme Right is making from the issue. He has conceded that the number of immigrants in France - 2.1m legal immigrants, most of them from North Africa - is pushing up towards what he called a *seuil d'intolérance* (threshold of intolerance).

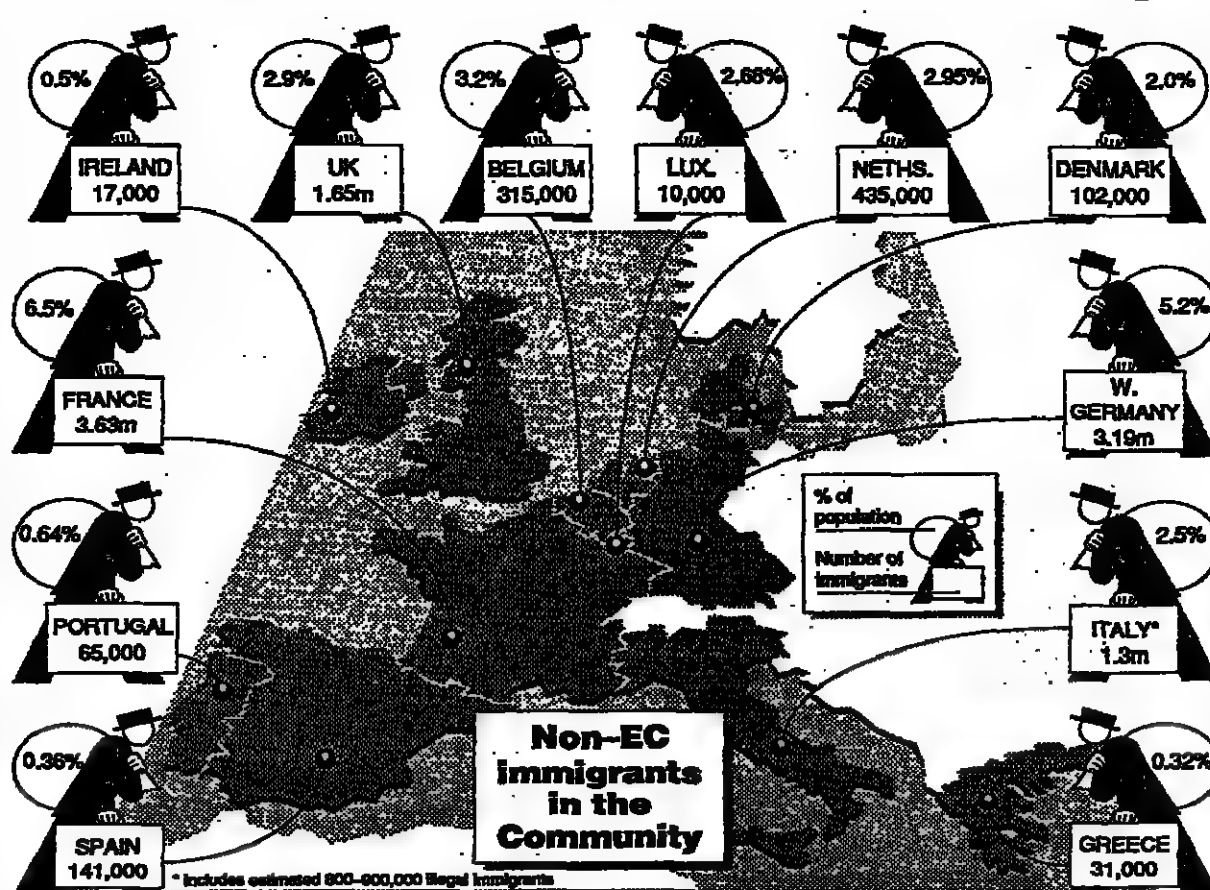
More serious, however, are the tensions building up in southern Europe, which for the first time for decades is taking in more people than it sends out. The issue is rising in importance in Spain, but Italy is feeling much the most exposed. Its inability to police properly its 5,000km of coast line against a surge in clandestine immigration from nearby North Africa means that it is now playing host to at least 1.3m non-EC immigrants, more than half of whom are illegal.

The growing pressure of numbers has become an uncomfortable challenge to Italy's self-image as a racially tolerant country. There has only very recently been the scene of attacks on North Africans by gangs of youths, but it was the murder last summer of an African field worker after an accumulation of lesser incidents which, allied to pressure from its European partners, finally prompted the Roman Government to begin building the framework of a more rigid immigration policy.

On top of all this is the realisation by EC governments that, if they fulfil their aim of removing all internal border checks by the end of 1992, they must come to an agreement on what outsiders they let in through the Community's external frontier. For, after 1992, anyone entering the Community at, say, the boat of Italy would be able to travel to Paris, Copenhagen, London without hindrance.

Italy has done more than any other member state to press the immigration issue to the top of the EC agenda. As so often in the past, Rome is seeking a Community cover for a policy which risks souring relationships Italy has carefully built over the last decade with North African countries.

Legislation recently passed by the Italian Parliament seeks to guarantee social and welfare rights for non-EC immigrants and to regulate future immigration largely according to the needs of the domestic labour market. At this stage, the Government has not committed itself to introducing entry visas for arrivals from some of the 80 odd countries whose nationals are currently allowed a 90-day unregulated sojourn. Privately, officials believe that without this requirement the new approach will be thoroughly unconvincing, given the growing effi-



The intolerance threshold nears

ciency of Italy's "labour importers."

The headhunts are frequently Sicilian or Neapolitan mafias, which supply would-be illegal entrants from North Africa with an "immigration pack" sufficient to pass through ports and airports: a return ticket to their country of origin together with evidence of a hotel reservation and some pocket money to sustain the fiction that they are tourists planning to stay no longer than 90 days. Many other illegals are landed at night on deserted beaches to join the exploited army of landworkers picking tomatoes around Naples, or the Sicilian fishing fleet which could scarcely manage without its immigrant crews.

Herbino, the "race card" has only been played in Italy by regional political parties, such as the Lega Lombarda, against immigrants from the south of Italy. Now there are signs that the Lega and other extremist groups are trying to mobilise against the growing, visible presence of coloured immigrants and, above all, the lack of public housing to accommodate them. Milan City Council's plan to build a city of tents to provide temporary shelter for immigrants has sparked fierce street protests from local residents and secondary leftists from the Lega inveighing against the construction of "the Casbah or the Bronx in our neighbourhoods."

At the particular insistence of Mr Gianni De Michelis, the Italian Foreign Minister, last December's Strasbourg summit called for a review of national policies on immigration and a broad debate on future policy later this year when the presidency of the EC falls into Italian hands. Rome is also planning a ministerial level EC conference on immigration problems. This is designed, among other things,

enable the Government to explain to domestic critics on the left, and to offended foreign governments, that its more restrictive approach on immigration is a matter of Community policy.

In the run-up to these discussions, the Brussels review is now being masterminded by Ms Vasso Papandreu, the EC social affairs commissioner. At the same time, her Spanish colleague, Mr Abel Matutes, the commissioner responsible for relations with developing countries, has launched a drive for a new Community Mediterranean policy - aimed partly at showing that eastern Europe has not eclipsed traditional EC ties

Money on a massive scale might help. But EC governments are not going to dig deeply into their own pockets

with the rest of the world, but also at giving those around the Mediterranean's southern and eastern shores more incentives to stay at home. Community involvement in the highly sensitive area of immigration stems from the Single European Act's commitment to abolish internal frontier checks. In 1986 when the act was negotiated, the Commission asked member states to notify it formally of any new steps they were taking in immigration policy.

Some member states challenged this Commission request in the European court, but gradually, albeit reluctantly, the Twelve have come to see the need to fit their immigration

policies into a coherent Community strategy, for one very good reason. In a free travel zone, like that which the Community aims to achieve for its own citizens post-1992, each state's defence against undesirable or illegal immigration (and crime and drugs) will only be as good as the controls operated by the other 11.

So the Twelve have been striving for common agreement on who should be let into the Community - or rather, because it is somewhat easier, on who should not be let freely into the EC. They are at present negotiating a so-called negative list of countries (expected to include, among others, Morocco, Algeria and Tunisia) whose citizens will be required to get visas before travelling to the Community. The task is hard, because France requires entry visas of many nationalities, while the countries of Europe's soft southern underbelly, together with Denmark and to some extent Spain, require very few.

The so-called Schengen group of West Germany, France and Benelux countries have tried to lead the way by creating a common travel zone of their own. The degree of mutual trust required to create such a zone is shown not only by the fact that even these relatively homogeneous five countries have so far failed, despite five years of effort, but also by their treatment of Italy. The latter banged on the door of the Schengen club, but was refused admittance by the Five until Rome had significantly tightened its border controls.

These moves in Brussels and many national capitals argue that a common policy on visas will only ever be achieved if it is separate from other aspects of immigration policy, such as rights of residence and work.

It is, however, just this distinction that is beginning to be blurred. The European Parliament, with its socialist majority, is urging that non-EC citizens should have the same right to travel the Twelve in search of work as do EC nationals. At present, for instance, a Moroccan who legally resides and works in France has no automatic right to do the same in West Germany. But if non-EC citizens are denied the same freedoms as EC nationals, they may be condemned to remain in the pockets of high employment, poor housing, indifferent schools in which many are presently stuck.

Europe's traditional immigrants can expect more competition from better educated east Europeans, even if the latter's flow into West Germany slows down.

What can be done? Money on a massive scale might help. But EC governments are not going to dig deeply into their own pockets, and the limited resources of the EC Social Fund are wholly taken up in trying to reduce long-term and youth unemployment without distinction as to nationality.

Repatriation schemes by EC governments have been a failure; immigrants simply take the money, leave and return. Mr Joseph Kitticki-Koumba, president of the Federation of African Workers in France, suggests that one solution might be for the EC to help train immigrants for worthwhile professional jobs back in their countries of origin. He cites the modest success of the Intergovernmental Committee for Migrants in Geneva which has been training immigrants in Europe to return to Somalia, Zimbabwe and Kenya.

More promising is a plan put forward by Mr Matutes. He makes a good case for some Community action. The population (currently 200m) of the 14 non-EC countries bordering the Mediterranean is increasing by 5m a year, precisely the total number of their citizens within the Community. In most cases, double-digit growth rates will be needed just to maintain domestic employment rates at current levels.

Obviously, these countries would like the EC to be a safety valve for their surplus labour as well as a source of growing remittances (\$8bn a year at present from their nationals in the EC). "We cannot allow the old East-West tensions to be replaced by North-South tensions," says the Commissioner.

To help anchor the population of these countries at home, Mr Matutes suggests a multi-pronged strategy: promoting joint ventures and private enterprise, and giving the countries more market access for their products and more technical help to foster better domestic commercial opportunities.

Mr Matutes has full Italian backing for his plan, but Rome knows that it cannot wait for an economic transformation to the south to solve its growing human migration problem. Its step-by-step solution has begun with a four-month legal amnesty to encourage all of the estimated 700,000-900,000 illegal immigrants in the country at the end of 1989 to declare themselves.

Mr Claudio Martelli, the Socialist deputy prime minister who is steering the policy, is also visiting Tunisia, Morocco and Algeria to encourage those governments to institute stricter controls on travellers.

This approach is already a source of some conflict within the governing five-party coalition, with the small Republican Party condemning the failure so far to impose entry visas. These may now be inevitable, but not before it seems, the rest of the Community is seen to require Italy to shelve libertarian principles in the cause of the smoother functioning of the internal market.

Not the man for ducks

It is going to be a bad Budget for the ducks, and that is official. John Major, the Chancellor, is breaking with tradition and abandoning the official Budget morning stroll in St James's Park to feed them. Instead, press photographers will be invited to snap him in Number 11 Downing Street as he presents British Empire Medals to two long serving members of the Chancellor's Department.

By contrast, both Nigel Lawson and Sir Geoffrey Howe were enthusiastic promenaders in St James's Park, using the occasion to take the family dogs for a walk.

Major has no dog. Moreover, the out of doors protocol has become increasingly hazardous in recent years. On one occasion, the lensmen were infuriated by an intrepid reporter who tried to elicit Budget news from the Chancellor. Last year, Lawson was harangued by an anti-smoking campaigner.

None the less, Major does seem to take his duties a little seriously. Were it not for a picture of him in *The Times* last week wielding a cricket bat at the Oval, one might be concerned that it is all work and no play.

This year there will be none of the usual photos of the Chancellor in the garden with his family on the weekend before the Budget. Major has chosen to be pictured opening a high-tech factory in his constituency of Huntingdon where he has a majority of over 27,000. Obviously he thinks it needs wooling.

Gardini's boat

Raul Gardini invited around 1,200 guests to Venice at the weekend for the launch of his America's Cup challenger, *Il Moro di Venezia*. Franco Zennaro took pictures. This is only the first of his

OBSERVER

four challenges. The vessels are being built in Mestre, across the lagoon from Venice, by one of the subsidiaries of Gardini's Mediterranean chemicals group. Montedison is providing a budget of \$10m a year for the four boats, although the race not due to start until 1992 at the earliest.

Gardini clearly takes it seriously: little point in reminding him that a previous challenger was Alan Bond.

Pinochet

General Pinochet of Chile is a hard figure to judge. He was undoubtedly a dictator, yet he also restored order and, however reluctantly, has now given way to civilian rule.

The General has vacated the Presidential Palace in Santiago, but has not completely left the scene. Pinochet has insisted on remaining Commander-in-Chief of the Army and has commandeered a building just across the street from the Palace to install his new army headquarters. From there, he will be able literally to look down on every step taken by the country's new President, Patricio Aylwin.

Pinochet has taken a coterie of advisers with him to monitor the new Government's progress, and it is possible that the now 74-year-old General has merely beaten a tactical retreat. In theory, he could try to stage a come-back in 1991 and stand for President.

Not long ago, he likened his destiny to that of Cincinnatus, the retired Roman Consul who was called back by his people to be Dictator in time of need.

Probably not nevertheless, the General is keeping his presidential sash as a souvenir.

Granny's game

A round Rubik's cube has been invented in the Soviet



"The PM's ditched the poll tax, joined the ERM and apologised to Nigel Lawson, but it's just a rumour."

Union with proboscises called bureaucrats stuck onto the pieces which get in the way and prevent the globe being rearranged into pretty patterns.

To play the tennis-ball-sized toy, you move green, blue and white pieces around the equator and up and down the meridians to create bands of colour - green in the middle, blue and white at the poles. Six of the pieces, however, have excrecences on them, happily coloured red, which may jam, thus preventing other pieces from moving.

The point of the game is to think up ways of circumventing the bureaucrats.

The toy was devised by a engineer and amateur puzzleologist from a metallurgical plant in Nizhny Tagil, an industrial city in the Urals. The inventor's name is Mr Babushkin, which means "Mr Granny". His invention has been approved by the Toy Council of the Ministry of Education and Science.

For sale. Electric guitar and amplifier, and 12-bore shot gun. Both only used once.

name for the cube. It is currently called *The Bureaucrat in the Apparatus*.

Ridley's way

It is, I suppose, quite likely that Nicholas Ridley, the Secretary of State for Trade and Industry, will leave the Cabinet in the summer reshuffle made inevitable by the forthcoming departure of Peter Walker, the Welsh Secretary. But he deserves a word in his defence.

There was not a lot that he could have done about ERM. One has no sympathy with the people who want the Fayed brothers deported: some of them, left and right, would call for the deportation of almost any questionable foreigner. There is little point in taking a case to court if it is likely to lose, and there is no case at all for resorting to what would amount to retrospective legislation.

As Ridley implied in his statement last Wednesday, it might be different in future. "We have since taken steps in the Companies Act 1989 to make it a specific criminal offence for anyone knowingly or recklessly to mislead the competition authorities."

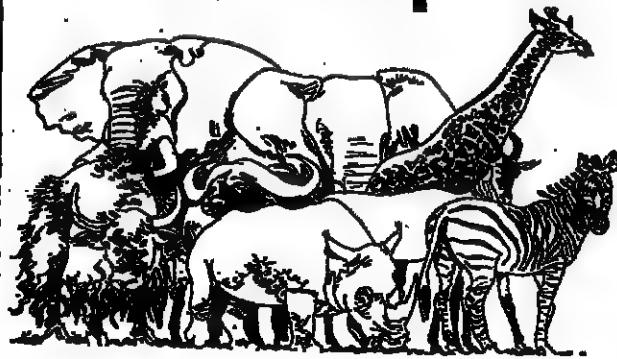
Ridley has been spectacularly and intelligently right before. When he was a junior minister in the Foreign Office, he concluded that there should be a peaceful settlement of the Falklands dispute by means of leaseback. Britain would cede sovereignty, but continue to administer the territory. He was howled down in the House of Commons by the combined forces of left and right.

The Ridley way might have been a rather better solution for all concerned than the Falklands War.

No connection

Card is a Fulham shop window. "For sale. Electric guitar and amplifier, and 12-bore shot gun. Both only used once."

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James Buxton on criticisms of a 'branch economy' north of the border

Last week Scotland won the jackpot for inward investment. Two US electronics companies, Motorola and Conner Peripherals, revealed that they had chosen sites in Scotland to build large manufacturing plants, eventually employing between them more than 3,000 people.

These projects will undoubtedly strengthen Scotland's electronics industry and reduce unemployment. The projects are unlikely, however, to banish the widespread feeling in Scotland that the country's economy is not regaining itself sufficiently. In fact, they may reinforce the belief that Scotland is in many ways a branch economy, with few substantial locally-headquartered manufacturing companies.

As independent Scottish companies disappear, Scotland could be said to be melting away. It is not an easily visible process. The country's prosperity has strikingly increased in the last few years and Mr Malcolm Rifkind, the Scottish Secretary, pointed out in the House of Commons recently that its economy probably grew faster than that of the UK as a whole last year.

But in the same debate, Mr Donald Dewar, Labour's shadow Scottish Secretary, quoted a leaked internal Scottish Development Agency paper showing that since the mid-1980s there had been "a long-term relative decline compared to the rest of the UK and the rest of Europe" in the Scottish economy. Scotland, it said, had not generated enough output or employment to match the available labour.

The result was high emigration, population decline and greater unemployment.

Mr Dewar was denounced by the Tories for peddling gloom, and the SDA's board has not approved the document. But the facts it contains are not disputed. Scotland's population of 5.1m is in gentle decline, as emigration outpaces natural increase. In 1988 the number emigrating rose 65 per cent from the previous year to 24,700. Many of the most active and best qualified young Scots are lured away, mostly by the stronger economy of the south of England but some to Australia and Canada.

In the 1980s, the decision-making headquarters of such companies as Anderson Strathclyde, Distillers and Britoil passed out of Scotland. Whether these and others are better or worse off for having been taken over is debated endlessly. But when a Scottish company comes under external control, its managers are less likely to think automatically of expanding in Scotland.

And, as Professor Jack Shaw, who runs Scottish Financial Enterprise, a pressure group for the financial sector, points out, when decision-making headquarters move, the power of patronage usually goes with them. The companies are less likely to provide high quality work for accountants, lawyers, public relations and advertising men. There are fewer opportunities for people aspiring to be



The BT-truck plant at Irvine, Scotland owned by Hyatt of the US

Why Scotland fears it is melting away

managing directors, finance directors, merchant bankers, corporate tax experts and corporate lawyers.

Branch factories owned by foreign multinationals, which comprise about 30 per cent of Scottish manufacturing industry, have similar effects. "They're the only way you're going to create 500 jobs overnight," says Mr Alastair Macpherson, head of the SDA's electronics division, "and they bring technical and managerial skills." But, he adds, "you also get a very lopsided type of economy. You get a heavy preponderance of manufacturing and engineering jobs and very few marketing jobs."

Silicon Glen, the Scottish electronics industry is called, employs about 45,000 people. But the multinationals have not spawned a vigorous indigenous electronics sector. Scottish-based companies supply only 15 per cent of all components consumed in Scotland, as multinationals prefer the suppliers they know.

The multinationals' plants tend to have few people who know the entire business and are in a position to farm companies of their own. The number of such "spin-outs" from multinationals in Scotland is pitiful. Neither Motorola nor Conner has any plans to

locate research and development or marketing operations in Scotland in the short or medium term.

The SDA has made big efforts to help new companies come into being in electronics, as well as biotechnology and other fields. But many of the most promising have followed the big companies and lost their independence. For example, Fortronic, which developed electronic banking systems, was taken over in 1987 by De La Rue.

Last December, Matsushita of Japan paid £2m for control of Office Workstations (OWL), a company with sales last year of £2.3m, which in six years has become one of the world's leading providers of software systems for reading electronic documents.

The takeover of smaller companies goes on in other fields. Apollo Blinds, one of Britain's largest makers of window blinds based in Glasgow, was sold last year to Ashley Group. HLD, the management buyout group which in 1988 and 1989 acquired Clark King, the marine engine makers, and Ferguson Shipyard from British Shipbuilders, recently sold a controlling stake to Kvaerner, the Norwegian group which owns the Govan shipyard.

These companies will continue to

operate in Scotland and are likely to become stronger. Fortronic, for example, which sometimes struggled before De La Rue moved in, has been expanding. HLD needed an injection of capital to continue to expand. OWL is likely to grow even faster under Matsushita.

Mr Macpherson says: "The downside of the takeovers is that companies which lose their autonomy may have more difficulty in responding to opportunities than those that don't. The upside is that they should have easier access to finance and technology if they are allowed to respond."

However, many Scots believe that these deals are destroying part of the sector of the Scottish economy. Prof Shaw says the companies involved made perfectly rational economic decisions, but that each such takeover means one less company that might have grown into a large independent entity based in Scotland.

Among Scottish-based companies, Campden Holdings, the industrial conglomerate, and Lilley, the construction group, are among the few that are particularly acquisitive. But Mr Peter Palmer, who runs Spider Systems, an Edinburgh computer which makes systems for computer

networks and has doubled its turnover (now approaching £10m) each year since it was founded in 1983, says: "I absolutely reject the critical attitude that the Scottish media displays towards these takeovers. By pillorying the entrepreneur who cashes in, you discourage people from starting in the first place."

The man who builds a business up to £5m or £10m turnover is not necessarily the one to take it to £50m or £100m.

Some Scottish companies are determined to remain independent. The Wood Group, Scotland's biggest indigenous oilfield services company, run from Aberdeen by Mr Ian Wood with a turnover last year of £28m, has no wish to go public. Mr David Murray, the businessman who runs Murray International, which expects sales of £10m this year and operates in property development, steel stockholding and electronics, once talked of going public but now says he wants to build up a strong Scottish-based company.

Mr Palmer, who intends in due course to seek a quotation for Spider Systems, says: "The key question about these takeovers is whether or not the companies coming in to replace them."

The overall statistics are not reassuring. Scotland does not appear to spawn as many new companies as most other parts of Britain. Net new VAT registrations between 1980 and 1987 increased by 11.4 per cent in Scotland, against the average for the UK of almost 14 per cent. Only 2.4 per cent of the companies on the unlisted securities market at the end of last year were Scottish.

Scotland, according to Mr Brian Ashcroft of the Fraser of Allander economic institute in Glasgow, has fewer of the ingredients which appear to lead to business creation than other parts of Britain. The proportion of people owning their own homes — a measure of the wealth that might be available to invest in new businesses — is low, and homes are less valuable. Scotland had only 44 per cent owner-occupation in 1988 compared with 65 per cent in Great Britain as a whole. In addition, Scotland has a relatively low proportion of its population in the professional and managerial classes.

If those reasons are correct, then Government policies that have increased home ownership and self-employment are steps in the right direction. Yet they may not be enough. People like Prof Shaw believe a regional economic problem is to persuade the Government that relative decline in the regions — as a result of centralising policies and the workings of the British financial system — works to the disadvantage of the national economy. "The less wealthy a region is, the more revenue it can produce to keep its public services going and the more money it needs to get from central government in rate support and regional assistance," he says. It is a message that a thrifty government ought to understand.

The Bazoft case gives the lie to Iraq's promise of change, argues Edward Mortimer

How not to make friends

FOR TWO days last week a conference at the Royal Institute of International Affairs (Chatham House) discussed "Iraq in the 1990s". Such conferences are intended to be self-financing: the attendance fees are high, and the subjects chosen are those thought likely to interest the business community.

Iraq is clearly in that category. It has the second-largest oil reserves in the Middle East. After its victory on points in the gruelling eight-year war with Iran it has emerged as second only to Israel among the military powers in the region, and aspires to play a leading role in the Gulf. It is engaged in a phase of intense postwar reconstruction, while at the same time seeking to build up its arms industry in order to maintain a qualitative edge over Iran and its other neighbours.

In short, Iraq is an extremely interesting potential market. Yet business prospects are clouded by financial, political and ethical doubts. Last year's revelations about the activities of Banca Nazionale del Lavoro revealed the subterfuges to which Iraq, saddled with crippling war debts, has resorted in order to finance its missile development programme. Political risks are hard to assess in a country where power is so heavily concentrated in the hands of one man, President Saddam Hussein, but inevitably the question arises whether Iraq might not be affected by the wind of change that has swept away other regimes which in the past relied on Soviet support.

Above all Iraq's business partners have to ask themselves whether it is politically wise, let alone ethically proper, to strengthen the economy of a state which not only shows no respect for human rights but is the front runner in a regional arms race, and has shown itself willing to use weapons of mass destruction in violation of international law.

At the Chatham House conference, under some sharp questioning, Iraq's deputy foreign minister, Mr Nisr Hamdoun, admitted that some of the human rights charges were true, but claimed that with the war behind it Iraq was now anxious to turn over a new leaf. There would be no return, he said, to the ideological excesses of the 1970s. Economically the state was no longer relying exclusively on the centralised "command system," but was introducing policies that favoured private enterprise. Freedom to travel abroad had already been restored to Iraqi citizens. A dialogue had been opened with Amnesty International. Soon there would be a new constitution and even multi-party elections.

Some outside experts gave at least qualified support to Mr Hamdoun. The violence of the regime, they argued, was the product of extreme insecurity, and foreigners would only make matters worse if they ostracised it internationally while egging on its internal opponents. A better way to promote change would be to encourage social and economic development and maximise external contact.

I was half convinced. Not that I would ever give Saddam Hussein "the benefit of the doubt." But I might just be persuaded that his rule has been in some sense a necessary evil, an unavoidable if grim period in Iraq's turbulent history, and that less misery would be caused by its consolidation than by further attempts, necessarily violent and probably futile, to overthrow it. At least, I began to think, it might be time to go back to Iraq to see for myself whether the atmosphere really is changing.

But then, the day after the conference, I switched on the radio and heard that a fellow journalist who went to Iraq at the Government's invitation to report for a British newspaper, had been sentenced to death by an Iraqi court for trying to do his job. Unless and until that journalist is released, alive and unharmed, Mr Hamdoun should not suppose that I or any other western journalist will wish to visit Iraq, no matter how persuasively the invitation may be phrased. It is not too much to hope that those who want to make money out of doing business with Iraq feel similarly moved.

LETTERS

All jolly good fun in the House of Fraser affair

From Mr A. Thompson.

Sir, The House of Fraser case throws up some fascinating areas of the law. The Department of Trade and Industry inspectors, taking evidence in secret as they please, can denounce directors of a major company as thoroughly rotten apples who, if allowed to remain in the country, should not be left in charge of a wheelbarrow.

The authorities then do nothing about it since the findings, whether true or false, might well not stand up in a court of law under normal rules of evidence and procedure.

This is all jolly fun. If it is such a good idea for this to be done to directors, perhaps we should have the same procedures for politicians and other influential figures in our national life.

Why did it take 18 months of globe-trotting by the Serious Fraud Office to discover the horrifying fact that people can-

not be brought back in handcuffs from Egypt to tell us how much money they think the Fayeds might have possessed 40 years ago?

This should not have surprised them. It is not as if Scotland Yard can itself help with witness statements when the jurisdiction problem is the other way round. Within recent months, it has been reported that a suspected murderer in California will probably walk free, because a known witness to the killing who lives in London does not want to get involved and cannot be made to testify.

Does it really matter who whose money the Fayeds bought House of Fraser? They made a cash bid and their cheques were honoured. Are shareholders concerned that their money might not have come from a good home? They have probably spent it on something else anyway.

In all the House of Fraser group, the only company

whose capital adequacy concerns the UK authorities is Esso's bank — and the Bank of England is evidently contented with its affairs. The bank is presumably a limited liability company, so the Bank of England is quite properly not concerned with the capitalisation of its parent, let alone the personal wealth of its beneficial shareholders.

Even if a company's shareholders consisted of all living members of the Vanderbilt family, plus the Aga Khan and the Crown Prince of Abu Dhabi, they could all walk away from any corporate disaster, less the money which they had invested in it. Indeed, the fewer outside assets a company's shareholder-directors own, the more diligent their stewardship of the company is likely to be.

A fool and his money are soon parted. If Colonel Gaddafi could not see his way to wrecking the British economy by bankrupting the coal strike

in 1964-65, could the friendly Sultan of Brunei have done as much harm by putting the Fayeds in funds at the same time?

Whether the Sultan or anybody else considers that he has an enforceable agreement with the Fayeds is an interesting matter for speculation. So too is the question for the House of Fraser shares to the Fayeds by Lombar.

These matters need not, however, command the attention of Cabinet ministers, the House of Commons or the Metropolitan Police.

The only UK authority which might conceivably need to worry itself over the Fayeds' wealth (depending on their present or future tax domicile) is the Inland Revenue and it does not often lose sleep over people who pretend to be better off than they really are.

Andy Thompson, 28 Conrad Drive, Worcester Park, Surrey

NUT's campaign of persuasion

From Mr Doug McAvoy.

Sir, Emma Tucker's report on staff-room opinion in schools ("Teachers complain of ministers' ignorance," March 8) rightly identifies the causes of low morale among teachers: poor pay and the pressures of implementing the national curriculum with insufficient resources and time.

However she incorrectly represents the position of the National Union of Teachers over industrial action as a remedy for these ills.

Her claim that we are adopting a lock-out approach to industrial action because we lost members in earlier disputes is not true. We are currently not planning to strike or hold a ballot on industrial action. We prefer to pursue our pay and education objectives

through a campaign of public persuasion through which pressure can be put on the Government.

That campaign is beginning to be successful. The Government must acknowledge the need to spend more, but not enough on school buildings, for example. More public support is needed if education is to receive the resources needed and teachers are to be paid salaries comparable to those in industry.

We are more likely to earn that support — and keep it — by a continuing campaign of persuasion rather than by disruption. Doug McAvoy, General Secretary, National Union of Teachers, Hamilton House, Mableton Place, WC2

Dounreay and the North Sea

From Mr Douglas McRoberts.

Sir, Your report on the North Sea Conference ("Pattern told to end dumping," March 9) raises interesting issues in relation to Dounreay.

Although there have been calls to abandon the proposed European Demonstration Fast Reactor, Reprocessing Plant (EDRP), a Norwegian marine expert, Dr Gunnar Furnes, of Bergen, confirmed at the public inquiry into the scheme in 1986 that Dounreay did not damage Scandinavian fishing grounds or environment. Low-level radioactive discharges from Dounreay's existing plants have for many years been a tiny fraction of authorised levels. The proposed plant, if built, would produce even lower environmental impact through the application of more advanced technology.

The conference quite correctly called for the destruction of PCBs. As you reported last year, one of the most promising techniques for this has already been demonstrated at Dounreay. The electrochemical process, known as Dounreay Silver, operates at low temperatures and does not involve incineration with its possible hazards, such as production of dioxins. In principle, the system could be designed to destroy PCBs rather than the other way round. So Dounreay may fairly claim to be doing its share in protecting the North Sea environment.

Douglas McRoberts, Chief Press Officer, Atomic Energy Authority, 11 Charles II Street, SW1

The miners' strike and 'political aims' of the NUM leadership

From Mr D.G. Franklin.

Sir, If Professor Towers (Letters, March 8) honestly believes that the "supposed political aims of the National Union of Mineworkers' leadership were small beer, he is either badly informed or naïve.

Mr Arthur Scargill has always been totally honest in disclosing his aims and ambitions. After defeating the

Heath Government he gave an interview to the New Left Review in June 1976.

The 30-page report quotes him: "We were out to defeat Heath... because we were fighting a Government. We had to declare war on them and the only way you could declare war was to attack the vulnerable points. We were only opposed to the distribution of

coal to industry because we wished to paralyse the nation's economy. We were fighting a class war and you don't fight a war with sticks and bladders."

If Professor Towers has any doubts as to the political aim of the leadership of the NUM, he need read no further than page 28.

There Mr Scargill says: "The issue is a very simple one: it is

THEM and it is US. I will never accept that it is anything else because it is a class battle, it is a class war. Whilst it is them and us, my position is perfectly clear: I want to take FROM them FOR us, in other words I want to take into common ownership everything in Britain."

D.G. Franklin, 8 Wincott Street, SE11

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Monday March 12 1990

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INSIDE

Brawling to decide who regulates



The territorial battle between the Commodity Futures Trading Commission and the Securities and Exchange Commission is rapidly degenerating into an angry brawl. The SEC is using Congress's vacillation over the reauthorization of the CFTC to try to extend its own empire, pushing the CFTC on to the defensive. The roots of the tussle go deep, and have dredged up old calls for a single regulator to control the two markets. Page 18

Deeper into the red

Pan Am, the holding company for Pan American World Airways, has suffered a sharp increase in net loss for the fourth quarter and whole of 1989, although passenger traffic picked up in January and February this year. The holding company's net loss in the fourth quarter of 1989 grew to \$178.5m or \$1.21 a share compared with a loss of \$51.7m or 36 cents a year earlier. Page 18

Boardroom flare-up

A long-smouldering boardroom flare-up has flared into the open at Abbott Laboratories, the US health-care group which has been a stellar performer on Wall Street. The Chicago-based company announced the resignation of its chairman, Mr Robert Schoellhorn, Friday night. Immediately, Mr Schoellhorn launched a series of lawsuits, seeking injunctions, changes in the company's bylaws and monetary damages. Page 19

Tightening round the corner?

US credit markets held their own last week until confronted by news that the US economy has been generating jobs at a rapid rate. The employment data were bolstered by all sorts of special events, but the underlying trend was strong enough to increase the fair warning that the Federal Reserve's next move might be a tightening rather than easing of monetary conditions. Page 20

Market Statistics

3m Treasury bill	27	Money market	27
3m Treasury note	10	3m US Treasury bill	10
3m US Treasury note	10	3m US Treasury note	10
3m US Treasury bill	10	3m US Treasury bill	10
3m US Treasury note	10	3m US Treasury note	10
3m US Treasury bill	10	3m US Treasury bill	10
3m US Treasury note	10	3m US Treasury note	10
3m US Treasury bill	10	3m US Treasury bill	10
3m US Treasury note	10	3m US Treasury note	10
3m US Treasury bill	10	3m US Treasury bill	10
3m US Treasury note	10	3m US Treasury note	10

Companies in this section

Abbott Labs	19	Elanco UK	19
Amgen	19	Glaxo	19
Amgen UK	19	Glaxo UK	19
Amgen UK	19	Glaxo UK	19
Amgen UK	19	Glaxo UK	19
Amgen UK	19	Glaxo UK	19
Amgen UK	19	Glaxo UK	19
Amgen UK	19	Glaxo UK	19
Amgen UK	19	Glaxo UK	19
Amgen UK	19	Glaxo UK	19

Mystery of a financial culture gap

Nikki Taft on share buy-backs in the UK

After the 1987 stock market crash, more than 400 US corporations announced plans to buy back their shares. In the UK, two and a half years later, only a fifth of Britain's FT-100 companies even possess share buy-back powers, and those using them can be counted on the fingers of one hand. It is a financial culture gap for which no one has a complete explanation. "Certainly, there are some technical differences between the US and the UK," says a partner at one large accountancy firm, "but basically it's very new here."

Last week, Imperial Chemical Industries, Britain's seventh largest company, announced it would be seeking shareholder authority for a buy-back scheme. Does this suggest that UK attitudes are finally shifting? Or is the growth of buy-backs still hindered by philosophical and technical obstacles?

Ahead of the 1987 stock market crash, perhaps the only notable buy-back by a UK industrial company was conducted by GEC. The electronics group, which had substantial surplus cash in its balance sheet, bought in about 3 per cent of its equity over a two-year period in the mid-1980s.

After the crash, a number of big UK companies sought buy-back powers from their shareholders. The list of Footsie stocks adding this option post-1987 includes the likes of Courtauld, Kingfisher, Hanson and Reed International.

A clutch of smaller firms have actually implemented buy-backs. In the past week alone, Topic Screens displayed announcements of shares purchased for cancellation at the likes of Astra, Brotherton, Nu-Swift and SRF Industrial.

But the overall impact of share buy-backs in the UK is still minuscule. "I should think that less than one-hundredth of one per cent of the UK equity market has been bought back," estimates one analyst at stockbrokers County NatWest WoodMac.

Among larger companies, only the buy-in at BAT Industries — which covers 4.3 per cent of the original equity — is significant. By contrast, New York-based Birming Associates estimates that buy-back programmes worth up to \$60.5bn were in place in the US in 1988.

Explanations for why the UK is different tend to fall into two categories. The first, and most serious, concerns commercial rationale. Companies, when they take share buy-back powers, usually state they will use them only if earnings per share are increased as a result. Many — like ICI — add an additional caveat that such buy-backs must be "in the best interests of the company at the time."

Institutional investors, fairly permissive on this score, do insist on some ground-rules. The Association of British Insurers, which represents many of Britain's large insurance companies, says members are "perfectly relaxed about buy-backs provided they provide earnings enhancement and have a positive long-term effect."

At one level, the requirement for earnings per share enhancement is simply a mathematical equation — dependent on the number of shares bought, the multiple on which they trade, the rate of interest which the money could otherwise attract, and so on. But there can also be a trade-off between short-term earnings enhancement and long-term investment.

ICI is a case in point. Paying down its suggestion that it immediately intends to sweep into the stock market in significant fashion, the chemicals giant stressed that its request for buy-back powers should be seen in the context of recent internal "belt-tightening."

In short, if capital expenditure is rationed and there is no spare cash in the balance sheet, diverting money into short-term equity buy-backs should be seen in the context of recent internal "belt-tightening."

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Problems, which are more technical

For some UK companies, advanced corporation tax complicates the sums. ACT paid by a company equates to the difference between its gross dividend payment and the actual net distribution to shareholders, and can be offset against UK corporation tax. But if a company's UK earnings are only a small proportion of the total, it may face difficulties recovering its ACT payments. A share buy-back scheme can crystallise the problem.

Two other issues are often raised in the context of the US/UK differences. In the UK, shares bought in must be cancelled. This tends to make a buy-back more permanent than in the US, where the same shares can sometimes be re-issued. There is also a school of thought which argues that buy-backs are usually a defensive mechanism, and the more rapacious US environment has provoked their wider appreciation.

But perhaps at the back of everyone's mind is the thought that the dividing line between a genuinely beneficial share buy-back and an operation which provides a temporary market distortion and looks less than clever once the buy-back has ceased, is very thin.

Sure, the mini-conglomerate, is a good example. The company started a buy-back programme covering about 10 per cent of the 50s, and by February had bought steadily until December. Its average buying price was 198p a share, and for most of the year, the company's shares stayed in the 190p-200p band. Since then, they have fallen to around 180p.

With all these caveats in mind, it is perhaps not surprising that many observers suspect the practice is unlikely to become commonplace in the UK, except perhaps in defensive situations. "I don't think clients are interested," is the typical comment from one accountant, "but it hasn't become a fad yet. Personally, I doubt that it will."

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Tokyo reaches for the Sal Volatile

John Plender seeks to explain stock market instability

Poor old Salomon Brothers. If the Great Tokyo Crash ever does happen, the big US trading house will have to carry the can. For the Japanese have shown themselves to be no more immune to the urge to find a scapegoat than the rest of us. And who better than Salomon to play the part? Apart from being foreign and Jewish, it has brought to Tokyo the kind of derivative financial instruments that no one over forty understands even in the US. Too bad it's not actually responsible.

But if not Salomon, who should it be? A modern Salomon Brothers, contemplating the latest upheaval in world markets might well be tempted to see coincidences in the crash of '87, the mini-crash of '88 and the Tokyo slide of 1989. The footprints of finance ministers and central bankers have invariably been found at the scene of the crime. Could it be that we have the beginnings of a neat conspiracy theory here, which could be summarised by saying that instability in the stock markets is the price we have to pay for attempts to stabilise the currency markets?

There is no difficulty squaring the '87 crash with this version of events. Since the Louvre Accord the Group of Seven has been preoccupied with the balance of the dollar. And when private capital fought shy, in the spring of 1987, of financing the US trade deficit, the central bankers plugged the gap. But by borrowing to buy dollars, they generated a speculative bubble in which equity yields lost touch with bond market reality. The October crash was a belated response to the central bankers' attempts to damp down the conflagration that they themselves had begun. Yet the people in the futures markets, together with the hapless Japanese, took most of the fall.

In 1989 we saw the same process working in reverse. This time the central bankers were worried about dollar strength, and they sought to make the dollar cheaper through intervention on the exchanges when Japanese financial institutions were exporting private capital at a much faster rate than Japan's corporate exporters were piling up the current account surplus.

As so often happens with cross-border financial flows, the foreigners piled into some of the hottest markets right at the top. To the extent that their efforts to keep the dollar cheap encouraged speculative excess in the junk

bond market, the central bankers look a fair target for conspiracy theorists. Junk bond investors, meantime, would love to have foreign finance ministers in their sights; or, more specifically, the Japanese Ministry of Finance (MoF), which undoubtedly helped prick the bubble. By hinting that the Japanese banks should not overdo things in junk, it made an extraterritorial contribution to the collapse of the United Airlines deal, which in turn spawned the mini-crash in equities. But the maestro was small because investors were not convinced that the bubble extended beyond the junk market. The subsequent lack of panic over the demise of Drexel Burnham Lambert lends support to their view.

It is when we come to the Tokyo market slide that the conspiracy theory weakens. For the root cause of the problem here is domestic. Japan has been exporting private capital to the point where the yen is endemically weak because its own domestic asset prices are hopelessly overvalued relative to everyone else's. And it is the bond market reaction to the decision by Mr Yasushi Mieno of the Bank of Japan to make asset prices a target of monetary policy that has caused equities to take fright. The MoF, meanwhile, begs to differ with the Bank. It feels that stability in equity markets is an important goal of policy and that Japan has a mission to provide financial stability to the global economy.

To Western eyes the notion of being stabilised by a country capable of valuing corporate earnings on an average multiple of more than 50 (and privatisation stocks on a p/e ratio that have ranged up to more than 200) seems a little odd. Yet the MoF is right on one thing: a country that sports the world's third largest economy on a land mass which could be carpeted wall-to-wall without putting a dent in the national budget is bound to have asset price inflation. And the inflation in capital values has been further exacerbated by tight planning controls and a tax system that discourages efficient land use. Small wonder that the over-built City of London is now exporting private capital at a much faster rate than Japan's corporate exporters were piling up the current account surplus.

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It is when we come to the Tokyo market slide that the conspiracy theory weakens. For the root cause of the problem here is domestic. Japan has been exporting private capital to the point where the yen is endemically weak because its own domestic asset prices are hopelessly overvalued relative to everyone else's. And it is the bond market reaction to the decision by Mr Yasushi Mieno of the Bank of Japan to make asset prices a target of monetary policy that has caused equities to take fright. The MoF, meanwhile, begs to differ with the Bank. It feels that stability in equity markets is an important goal of policy and that Japan has a mission to provide financial stability to the global economy.

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Economics Notebook

Statistics for a new regime

BRITAIN'S trade performance has caused the Government so many problems over the past two to three years, that one might have thought the Treasury would be only too pleased to see the back of the monthly trade statistics.

Not a bit of it. Britain will be pressing at a meeting of European Community economic and finance ministers in Brussels today for swift action by the European Commission to ensure that the EC has adequate trade statistics following the creation of the internal market at the end of 1992.

The impact of the 1992 programme on official statistics has been overshadowed by bigger worries such as plans to narrow the differences between value added tax rates in the member states or proposals for economic and monetary union in the EC. But the British Government is becoming increasingly concerned that Europe will be bereft of trustworthy trade statistics after 1992. It is a concern shared by many other member states.

The creation of the single market will mean the disappearance of intra-EC trade of the present single administrative document (SAD) that accompanies all goods that move abroad. It is through the SAD that trade figures are collected.

Political agreement was reached among the 12 EC member states last year that trade figures would be collected in conjunction with the payment of value added tax in the countries of destination for intra-EC exports.

However, the Commission has yet to produce detailed regulations to translate the political decision into action. Although the end of 1992 seems a long way away, the British authorities fear that time is dangerously short for introducing a new trade figures system.

Concern in Britain focuses on the roughly 30 per cent of companies that are responsible for 80 per cent of UK exports and imports. These firms, which will be expected to give statistics of imports and exports on a monthly basis, will need to install new computer equipment and programmes. It has been estimated that this process will take two years, and testing the systems a further six months. Similar problems will have to be overcome in the other member states.

Neither governments nor companies want to do without intra-European trade statistics in the single market. Indeed, as business becomes more global, there is a strong argument for having more comprehensive trade statistics. Improved statistics enable a better co

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Abbott Labs row erupts as ousted chairman files suits

A LONG-SMOULDERING boardroom row has flared into the open at Abbott Laboratories, the US healthcare group which has been a stellar performer on Wall Street.

The Chicago-based company announced the resignation of its chairman, Mr. Robert Schoellhorn, on Friday night. Immediately, Mr. Schoellhorn launched a series of lawsuits, seeking injunctive, changes in the company's bylaws and monetary damages.

Mr. Schoellhorn's acrimonious dismissal came after six months of in-fighting among executives at Abbott, a battle which centred on Mr. Schoellhorn's allegedly autocratic personality and short-term orientation. Abbott continued to generate earnings advances which attracted the analysts' enthusiastic support.

The first sign of management problems came last August, when Abbott's board abruptly dismissed Mr. Jack

Schuler, the company's president and chief operating officer, citing "differences in philosophy" between Mr. Schuler and Mr. Schoellhorn. Mr. Schuler was the third president to have been summarily ousted by Schoellhorn in eight years. A few months later it emerged that Abbott's board had been deeply disturbed by the clash between the company's two top executives and had conducted a set of secret interviews with Abbott's other senior managers.

These interviews apparently showed widespread antagonism and dissatisfaction with the chairman. One of the key points of contention was the promise made early in the 1980s by Mr. Schoellhorn that Abbott's earnings per share would grow by at least 15 per cent every year.

In the last year Abbott's two most important businesses—infant feeding formulas and diagnostic equipment—have faced increasing competition, potentially threatening the 15

per cent target. According to several Abbott executives, Mr. Schoellhorn's response was to initiate an undesirable squeeze on research and development and marketing costs. The dispute over research funding was said to have been at the heart of the clash between Mr. Schoellhorn and Mr. Schuler.

In December, after another apparently stormy board meeting, Mr. Schoellhorn announced that he would take early retirement in August, instead of continuing until 1993 as had been expected. The board appointed Mr. Duane Burnham, formerly Abbott's chief financial officer, as chief executive and indicated that he would take over as chairman in August. After last week's clash, Mr. Burnham has been appointed chairman with immediate effect.

Mr. Burnham said last December that research and marketing expenditures might take priority over short-term profit growth in future. "We have consistently said that during some periods we might not earn 15 per cent,"

Loss grows at Pan Am but traffic picks up

By Karen Zagor
in New York

PAN AM, the holding company for Pan American World Airways, reported a sharp increase in net loss for the fourth quarter and 1989, although passenger traffic had picked up in January and February this year.

The holding company's net loss in the fourth quarter of 1989 grew to \$178.3m or \$1.51 a share, compared with a loss of \$61.7m or 36 cents a share in 1988.

Pan Am's operating loss increased to \$150.1m in the latest quarter, from \$110.5m in 1988.

Operating revenues improved 6.9 per cent to \$839.5m in the latest three months. Operating expenses grew 10.3 per cent to \$1,055.4m. This was attributed to a 35 per cent jump in fuel expenses, from \$129.4m in the 1988 fourth quarter to \$174.7m.

Pan American World Airways reported a net loss in the fourth quarter of \$162.5m against a loss of \$82.5m a year earlier. The airline's operating loss in the latest quarter was \$145.8m compared with \$117.5m in 1988.

The company said it continued to suffer from declining traffic and fare yields on Atlantic routes. Pan Am has had trouble attracting passengers since the bombing of a flight over Scotland shortly before Christmas 1988. However, in January, passenger traffic was 23 per cent higher than in the same month of 1988, while February's traffic gained 26 per cent over February 1988.

For the year, the parent company turned a net loss of \$336.1m or \$2.81 a share against a loss of \$72.7m or 51 cents a share in 1988. The 1989 results included a gain of \$110.5m from the sale of its Pan Am World Services division. The previous year's figures included an extraordinary gain of \$89.1m.

The company's operating loss expanded to \$304.5m in 1989 from \$63.5m in 1988. The airline subsidiary's net loss for 1989 grew to \$487.1m from \$118.5m a year ago.

Japanese union hits at investor power

By Stefan Wagstyl in Tokyo

JAPANESE workers have launched a campaign to try to rid their company of Mr. Mitsuhiko Kotani, a notorious stock market speculator.

The 1,900 employees of Kokusai Kogyo, an aerial survey operator, are threatening to strike unless Mr. Kotani, the highest shareholder, resigns. The company's trade union says the company's reputation with customers has suffered since Mr. Kotani took control in a spectacular boardroom coup in 1988.

The union says things have got worse since the beginning of this year when Japanese newspapers ran stories about financial dealings between Mr. Kotani's investment company, Kohin, and an aide to Mr. Yasuhiro Nakasone, the former Prime Minister.

"Stock market speculation has nothing to do with our business," said Mr. Junichi Kamei, the trade union's general secretary. "There's no other way than for Mr. Kotani to resign."

The row highlights a growing awareness among Japanese people of the power of stock market investors to control companies.

Disputes between labour unions and owners were common in the 1960s when Japanese unions were militant, but have since become rare.

Mr. Kotani, a property developer and stock market operator who started his career as a salesman at Daiwa Securities, made huge profits from the equity boom of the 1980s. A favoured tactic was greenmail—buying shares with the aim of forcing a target company to buy them back at a higher price.

Mr. Kotani apparently was his original intention at Kokusai Kogyo. Kohin, previously known as Korin Sangyo, started buying shares in Kokusai in mid-1987 and, with associates, built a 43 per cent stake. But Mr. Kenzo Masuyama, Kokusai's chairman and founder, and his son, Mr. Akira Masuyama, the president, refused to buy back the stock. So Mr. Kotani decided to take over the company.

Then in a surprise volte-face, Mr. Masuyama senior betrayed his son and pledged to vote his 15 per cent shareholding with the raiders. Mr. Masuyama junior demoted his father from chairman to consultant but could not stop the acquisition.

Mr. Kotani installed his own managers and started playing such an active role in the management that staff called him "the shadow president." His main contribution has been to accelerate the company's efforts to sell assets, especially valuable land in central Tokyo. In recent weeks, Kokusai has absorbed two subsidiaries involved in real estate finance—Sky Real Estate and Toyo Lease.

According to the Japan Company Handbook, Kokusai has trebled real estate sales during the last year and has expanded sales of securities holdings to offset a sharp increase in interest payments. Kokusai's pre-tax profit, including gains on asset sales, is expected to hit ¥3.6bn (\$23.8m) in the year to March 1990, a 75 per cent increase on 1989.

Mr. Kamei, the trade union official, said yesterday that resignations among the staff had doubled since Mr. Kotani arrived— from 60-70 a year to 120. Some 90 per cent of the company's clients were public authorities, which were concerned about doing business with Kokusai for fear that information gained through aerial surveys might be used by Mr. Kotani for speculative purposes.

Also in the market is a 150bn five-year term loan for Mediobanca della Puglia. Citicorp is arranger on the loan, which carries a margin of 1/4 over Libor.

Another Mediobanca unit, Mediobanca Piemonte, has mandated Banca Commerciale Italiana to arrange for it a two-tranche loan totalling Ecu20m. The Ecu10m five-year tranche carries a margin of 21 basis points over Libor, while the Ecu10m tranche carries a margin of 26 basis points over Libor.

S.G. Warburg will begin shortly the syndication of a \$1.7bn two-year credit for Reckitt & Colman. The funds, with \$200m in convertible bonds offered by way of rights to Reckitt shareholders, will be used to finance the \$1.56bn

acquisition of the Boyle-Midway Division of American Home Products. They will replace existing Reckitt credits, which will go into technical default.

The loan— terms have not been disclosed— has been underwritten by Barclays Bank, Midland Bank, National Westminster Bank, Citibank and Warburg.

Standard & Poor's, the US rating agency, said the debt financing was "likely to have a significant impact on the group's financial structure." It put Reckitt's top A-1 short-term rating under review for a possible downgrading. Moody's also said it was reviewing its Prime-1 rating on Reckitt & Colman's US and Euro commercial paper programs.

Currently, only half the member states of the European Community have securities firms which are members of IPMA.

Failure to expand the membership base could consign IPMA to a more marginal role in regulatory matters, Mr. von Brentano said.

HAECO lifts payout as profits rise 18%

By John Elliott in Hong Kong

HAECO's workload has been boosted by the expanding aircraft fleet of the Swire Group's Cathay Pacific Airways. The aircraft include second-hand Lockheed L-1011s, mostly from Eastern Airlines of the US, which HAECO refurbishes.

Attributable net profits were HK\$75.8m (US\$45.4m) for 1989, 18.6 per cent above 1988's HK\$64.8m, on a 30 per cent increase in turnover from HK\$1.30bn to HK\$1.45bn. Profits in 1988 rose by 23.2 per cent.

The company is increasing its dividend from 63 cents a share to 74 cents with a final payment of 52 cents.

Hong Kong companies are facing sharply rising labour costs because a general shortage of labour has been worsened by a brain drain of people emigrating to obtain foreign passports before the colony returns to Chinese sovereignty in 1997.

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Toronto starts trading in unit that avoids fees

THE TORONTO Stock Exchange has started trading a new type of participation unit which enables investors to buy an interest in all the stocks covered by the Toronto 35 index without paying the fees charged by mutual funds, writes Bernard Shinn from Toronto.

Known as Toronto 35 Index Participation Units (TIPs), the instrument is aimed at foreign institutions wanting a "slice of Canada" in their portfolios, and retail investors.

Eighteen securities dealers have underwritten the first issue, which was increased by 24 per cent last week to C\$24m to meet demand. The TIPs take the form of units of a trust created by the exchange. The trust's assets are the shares of the 35 companies which make up the index, held in the same proportion as they are reflected in the index. Units are valued at about one-tenth of the index level, with the initial price set at C\$24 apiece.

Pathé pays \$50m deposit towards MGM/UA offer

By Alan Friedman in Los Angeles

MR. GIANCARLO Parretti, the Italian financier who on Wednesday will begin a \$1.26bn cash tender offer for MGM/UA, the Hollywood film and television studio, has made an initial \$50m security deposit.

The \$50m payment was transferred on Friday by Pathé Communications, Mr. Parretti's Hollywood studio, to an escrow account at the Security Pacific National Bank in Los Angeles, according to a Pathé executive. The deal calls for a further three \$50m security payments to be made in April, May and

June. The deposit has not dampened scepticism on the part of analysts over Pathé's ability to finance the MGM/UA acquisition, which calls for Mr. Parretti's company to take on an estimated \$350m of MGM/UA subordinated debentures as well as making a tender offer at \$30 per share.

Pathé has also guaranteed to MGM/UA \$75m of the net distribution proceeds of certain movies, including the forthcoming film adaptation of John Le Carré's *The Russia House*.

Elders borrowings cut by half

ELDER'S IXL, the Australian wine producer, has reduced its borrowings by about A\$900m (US\$630m) in recent months to A\$10m, said chairman Mr. John Elliott, Rember reports.

He said Elders planned to release a completed balance sheet when its proposed public-brewery venture with Sch-

lacher Grand Metropolitan was finalised. "We will be able to show a balance sheet in the next couple of weeks which will show that the company will still be very strong and will have a one-to-one gearing ratio and between three and four times interest cover," Mr. Elliott said.

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Directeur: Shinsuke Makino

Siège social:

4-2, 3-chôme Marunouchi, Chiyoda-ku, Tokyo 100, Japon
Tél: (03) 284-3811, Télécop: (03) 214-6803, Téléc: J25345 UNIVSEC

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Alabli Bank of Kuwait (K.S.C.)
(Incorporated under the Commercial Companies Law of Kuwait)

US\$500,000,000

Floating Rate Notes due 1992

Notice is hereby given that the Rate of Interest has been fixed at 8.5125% and that the interest payable on the relevant Interest Payment Date, September 12, 1990 against Coupon No. 12 in respect of US\$500,000 nominal of the Notes will be US\$225.21 and in respect of US\$250,000 nominal of the Notes will be US\$112.60.

12 March, 1990, London
By: Citibank, N.A. (CSSI Dept.),
Agent Bank

CITIBANK

OPPENHEIMER MANAGED ASSETS COMPANY

SICAV

Notice to Holders of Bearer Shares

At an Extraordinary General Meeting of Shareholders of Oppenheimer Managed Assets Company (OMAC) held on 31st July 1989 the resolutions as published in the Financial Times on 6th July 1989 and in the Luxembourg Official Gazette (the *Mémorial*), the Luxembourg Wort and the Luxembourg Journal on 29th June 1989 and 19th July 1989 were passed by the Shareholders. As a result, former Shareholders in OMAC now hold shares in Garmont Penthouses Fund ("Penthouses").

Holders of bearer shares are now invited to submit their OMAC bearer share certificates to the Paying Agent, Banque Générale du Luxembourg, 27 avenue Marnier, L-2951 Luxembourg for exchange for bearer shares certificates in Penthouses. Shareholders are reminded that following the passing of Resolution 4, the shares in each Fund were subdivided into Five new shares and that the new bearer share certificates shall be of good delivery at the Luxembourg Stock Exchange.

Shareholders are advised that with effect from 15th March 1990, only Garmont Penthouses bearer share certificates shall be of good delivery at the Luxembourg Stock Exchange.

Garmont Luxembourg S.A.
28th February 1990

SOCIETE GENERALE

JPY 7,500,000,000

Revenue Floating Rate

Notes due 1991

For the period March 9, 1990 to September 9, 1990, the notes will bear an interest rate fixed at 1.5405%.

The interest due on September 10, 1990 against coupon nr 6 will be JPY 194,050.

The Principal Paying Agent

SOCIETE GENERALE

ALSACIENNE DE BANQUE

15, avenue Emile Reuter

LUXEMBOURG

Royal Trustee Limited

U.S. \$150,000,000

Floating Rate Subordinated

Capital Debentures Due 2005

Notice is hereby given that the rate of interest for the six month period 28 March 1990 to 30 September 1990 has been fixed at 8.725 per cent. The amount payable per U.S. \$100,000 Note on 9 September 1990 will be U.S. \$440.46 against Coupon No. 8. The amount payable per U.S. \$100,000 Note will be U.S. \$440.46 against Coupon No. 8.

Bank of Montreal as Agent

To the Holders of Warrants

to subscribe for shares of common stock of

Nissho Corporation

issued in conjunction with

U.S. \$120,000,000

5 per cent. Guaranteed Bonds due 1992

Notice of Free Distribution of Shares

Pursuant to sub-clauses (A) and (B) of Clause 4 of the Instrument dated 15th September, 1989 under which the above mentioned Warrants (the "Warrants") were issued, notice is hereby given that Nissho Corporation (the "Company") will make a free distribution of shares of its common stock on 18th May, 1990, Japan time, to its shareholders of record on 31st March, 1990 at the ratio of 0.1 share for each one share held. The transfer agent of the Company will be closed on 31st March, 1990. Therefore, a holder of any Warrants wishing to be entitled to this free share distribution must exercise his Warrants and be a shareholder of record of the Company at or prior to 15:00 hours, Japan time, on 30th March, 1990. This free share distribution is subject to the condition that 4,000,000 new shares of common stock proposed to be issued by the Company through a public offering in Japan shall be issued on 31st March, 1990.

If such free share distribution is made, the Subscription Price at which shares are issuable upon exercise of the Warrants, currently 116 Japanese yen per share, will be reduced pursuant to Condition 7 of the Terms and Conditions of the Warrants. Because of the condition precedent to the free share distribution and the proposed issue of new shares mentioned above, the Subscription Price, as adjusted as a result of the free share distribution, is not determinable now. Further notice will be given about this matter.

The Daiwa Bank, Limited
on behalf of
NISSHO CORPORATION

12th March, 1990

U.S. \$500,000,000

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March 12, 1990, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank

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INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Fed tug-of-war with White House

HIDING on the coat-tails of an upwardly mobile dollar, US credit markets held their own last week until confronted by news that the US economy has been generating jobs at a rapid rate.

The employment data were bolstered by all sorts of special events, but the underlying trend was strong enough to increase the still faint murmur in the market that the Federal Reserve's next move might be a tightening rather than easing of monetary conditions.

While some of the talk on

A tug-of-war between Administrations and the Fed over economic policy is a high-stakes game in Washington... The Administration has made it abundantly clear already that it believes lower interest rates are called for.

Friday was about the 372,000 jobs created in January, most of it focused on one job - that of the chairmanship of the Federal Reserve.

"A long-time adviser" of President George Bush said the President was "mad as hell" that Mr Alan Greenspan was refusing to lower interest rates to stimulate the economy, according to a report in the Los Angeles Times.

If he carried on like this, Mr Greenspan's chances of being re-appointed to the chairmanship of the Fed when his term expires in August next year were slim at best, the adviser said.

White House officials promptly denied the report and Mr Greenspan won stirring endorsements from Democrats and Republicans alike in Congress.

But many in the markets considered that the story should be treated as serious politics. They pointed, for example, to the fact that the report appeared in the Los Angeles Times. The paper has the standing to give the story enough but not too much credibility. Investors would have been rattled if it had appeared in the New York Times or Wall Street Journal, which are better plugged into the Administration and the markets.

A tug-of-war between Administrations and the Fed over economic policy is a perennial

high-stakes political game in Washington. It is never too soon for an Administration to start playing the reappointment gambit, particularly with mid-term congressional elections looming this autumn.

The Bush Administration has made it abundantly clear already that it believes lower interest rates are called for. Mr Nicholas Brady, the Treasury Secretary, told Congress last Thursday that the current rise in rates is "a concern to the Administration." Someone within the lower interest rate faction of the Treasury was considered by some observers as the most likely loser.

Mr Greenspan recently told Congress that the economy was picking up steam and so was increasingly unlikely to slip into a recession. Curbing persistently firm inflation was his main policy priority.

Quite what Mr Greenspan and other Fed officials thought of the LA Times story will probably not be known. But it is tempting to read some sort of signal into the behaviour of the Fed funds rate on Friday. It rose to 8.30 per cent because the Fed failed to add reserves as the market had expected. In recent weeks the Fed has been very conscientious about keeping the rate bang on its perceived target of 8 per cent. Did the Fed let the rate rise as a warning to the Administration to leave the Central Bank alone?

It was impossible to conclude that the rise was purely a technical matter, said Griggs and Santow, the money market economists.

Thus investors and traders will be watching Fed funds closely this week in case the Fed is making a more overt policy signal than just a one-day protest against Administration meddling.

Recent economic data, particularly the employment figures last Friday, "spell out further near-term upward pressure on interest rates - especially short-term rates - because they shift speculation away from monetary easing toward monetary tightening," said Salomon Brothers credit market economists on Friday.

Moreover, this further firming of market rates will continue to support the dollar just when central banks are trying to better it down. Heavy intervention last week only worked to that end on Monday. In sub-

sequent days the best the central banks could achieve was to slow its rise.

Ironically, it was foreign central banks themselves which contributed directly to the rise in short-term interest rates. So far this year they have liquidated \$7.2bn of US securities through the New York Fed to fund their intervention. Yields have risen to accommodate the selling with, for example, two-year Treasury notes rising 23 basis points last week alone.

By comparison, the yield of the benchmark 30-year bond rose only eight basis points, thanks to some genuine buying by investors.

Most people on Wall Street realise what is driving the dollar. "It is important to appreciate that the dollar's strength does not reflect an increased flow of funds, a vote of confidence in current economic policies or an improved economic outlook," said Griggs and Santow. "No, this rise in the dollar is largely a reflection of growing concern about the prospects for the economies of Germany and Japan."

Even so, US markets got a little worked up about the employment figures on Friday. Not only did February's figure for new jobs come in far higher than forecast at 372,000, but January's was revised up to 332,000 from 275,000.

Roderick Oram

US MONEY MARKET RATES (%)

	1st Feb	1st Mar	4th Mar	12-month	12-month
Fed Funds (weekly average)	8.30	8.25	8.30	8.50	8.00
Three-month Treasury bill	8.25	8.10	8.07	8.25	7.75
Two-month Treasury bill	8.25	8.10	8.07	8.25	7.75
Three-month commercial paper	8.25	8.10	8.07	8.25	7.75
90-day commercial paper	8.25	8.10	8.07	8.25	7.75

US BOND PRICES AND YIELDS (%)

	1st Feb	1st Mar	4th Mar	12-month	12-month
Three-year Treasury	103.1	103.1	103.1	8.50	8.25
Five-year Treasury	103.1	103.1	103.1	8.50	8.25
Seven-year Treasury	103.1	103.1	103.1	8.50	8.25
10-year Treasury	103.1	103.1	103.1	8.50	8.25
30-year Treasury	103.1	103.1	103.1	8.50	8.25

NRI TOKYO BOND INDEX

	1st Feb	1st Mar	4th Mar	12-month	12-month
Overall	148.8	148.8	148.8	148.8	148.8
Government Bonds	148.8	148.8	148.8	148.8	148.8
Non-government Bonds	148.8	148.8	148.8	148.8	148.8
Corporate Bonds	148.8	148.8	148.8	148.8	148.8
Foreign Bonds	148.8	148.8	148.8	148.8	148.8

PERFORMANCE INDEX

	1st Feb	1st Mar	4th Mar	12-month	12-month
Overall	148.8	148.8	148.8	148.8	148.8
Government Bonds	148.8	148.8	148.8	148.8	148.8
Non-government Bonds	148.8	148.8	148.8	148.8	148.8
Corporate Bonds	148.8	148.8	148.8	148.8	148.8
Foreign Bonds	148.8	148.8	148.8	148.8	148.8

Source: Reuters Research Institute

UK GILTS

Pessimism could favour the brave

A WEEK before Mr John Major, the Chancellor of the Exchequer, presents his first Budget, a mood of despondency and gloom pervades the gilt-edged market.

This week's raft of economic indicators could, if favourable, brighten the market's spirits. But, like a pessimist, it is currently a mind to see the glass half empty, rather than half full.

Prices for long-dated gilts continued to fall last week. Yields at the long end are now within a whisker of 12 per cent. The bellwether Treasury 11% per cent 2003/07 is now trading below par, ending on Friday evening at 11.98 per cent.

The declines were mostly driven by futures, but when the cash market did get activated late in the day the predominant reaction was to sell.

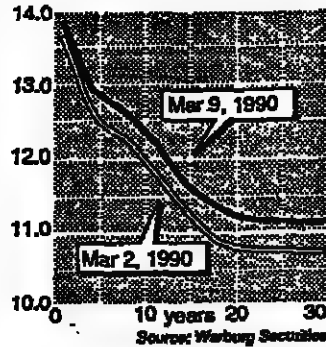
Mr Major is not the first Chancellor to face a difficult time in the weeks before a Budget. In March 1988, Mr Lawson was forced to change course on his DMS target because of Prime Minister Margaret Thatcher's opposition to currency intervention; also the indicators were ambiguous.

Last March the indicators were similarly ambiguous, but in May, the pound's fall forced a rise in interest rates. In the end, this too received approval after the event on the basis of revisions to data which made the economic situation clearer by suggesting that growth remained robust.

It is remarkable that now, 22 months after Mr Lawson began to apply the dampers to an

UK gilts yields

Restated at par (%)



Source: Weaving Securities

overheated economy, it is possible to have conversations with officials which conclude that the full effects of the monetary tightening still have some way to go.

In official circles there is still quite buoyant. Consumer borrowing is not accelerating, as some thought was indicated by January's figures; the problem is that borrowing is not decelerating.

The Confederation of British Industry/Financial Times distributive trades survey also seemed to underline the weakness. Growth in M0 is consistent with this.

Real income growth seems to be the main factor behind the resilience; continued growth in employment is exacerbating it. Average earnings are forecast to have grown by 9% per cent in the year to January. Unem-

ployment, which is turning out to be one of the longest lagging indicators, is forecast to have fallen by 15,000 in February. But it could be more - forecasts have undershot before.

Last Friday's revisions to employment data were hardly good for the Government either. When, this week, they are incorporated into the labour market figures, productivity growth will be lower than thought while unit costs will be higher.

With the near-term inflation outlook gloomy, no wonder the authorities are having collective kittens over sterling's dramatic fall. Only a little over two weeks ago the Treasury and Bank were basking in the warmth generated by sterling's rise above its pre-Lawson resignation level. Since then the pound, on trade-weighted terms, has fallen 4 per cent.

The risk that base rates will have to rise has now increased. The Bank, which reportedly intervened substantially and unsuccessfully on Friday, has always held that intervention alone is not sufficient to alter

the course of a currency. All the Bank succeeded in doing on Friday was to provide cheap dollars to the market. Most of the falls seen in UK asset markets have had little to do with what the economics data suggest about the economy. Politics are exerting a powerful influence on the markets.

The only respite from the latter will be if, like water privatisation, the poll tax future proves transitory. But between now and the end of the month the market has the Budget, the mid-Staffordshire by-election and the trade figures to negotiate. During this time the Japanese and West German monetary authorities may tighten their respective monetary screws another notch.

It is a brave investor who would commit funds to the gilt market in such an environment, with such large unknowns. But for the brave, there is always the first law of speculation to fall back on: when everyone is a seller it is time to buy.

Simon Holberton

Amax Gold increases gold output

AMAX GOLD, an 87 per cent-owned subsidiary of Amax, the third largest US aluminium group, seems close to securing its ambition of becoming the producer of 500,000 troy ounces of gold a year by paying \$14.5m cash for the 40 per cent of the Hayden Hill Gold

Venture in California it did not own, writes Kenneth Gooding. Amax Gold expects this year to produce about 310,000 ounces of gold. When Hayden Hill starts in 1992 the Californian mine is forecast to have an annual output of 145,000 ounces of gold.

FT/IBD INTERNATIONAL BOND SERVICE

IS	UK	FR	DE	IT	ES	PT	GR	BE	NL	LU	CH	AT	SE	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC	ZA	RU	UA	BY	PL	CZ	SK	HU	RO	BG	GR	TR	YU	SI	AL	GE	AM	AZ	UZ	TJ	TM	KZ	KG	MD	LT	LV	EE	IS	NO	DK	FI	IS	JP	HK	SG	TH	PH	MY	IN	PA	BR	AR	CL	CO	VE	EC
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CANADA

FT hand delivered in Turkey

At no extra charge, if you work in the business centres of Ankara, Adana, Adiyaman, Antalya, Bursa, Eskişehir, İstanbul, İzmir, Kayseri, Kırşehir, Kocaeli, Manisa, Mersin, Samsun, Trabzon.

Ø İstanbul 5120190/10 lines

And ask for Metin Gürel for details.

FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

**AUTHORISED
UNIT TRUSTS**[illegible][illegible][illegible][illegible][illegible]

Martin Augular Unit Trust Shares Ltd C120057									
Accountant Cap	12/31/87	12/31/86	12/31/85	12/31/84	12/31/83	12/31/82	12/31/81	12/31/80	12/31/79
Assets	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Liabilities	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Equity	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Expenses	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Net Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Dividends	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Share Price	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Yield	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Rating	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Notes	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Midland Unit Trusts Ltd C120057									
Assets	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Liabilities	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Equity	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Expenses	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Net Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Dividends	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Share Price	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Yield	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Rating	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Notes	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Midland Unit Trusts Ltd C120057									
Assets	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Liabilities	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Equity	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Expenses	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Net Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Dividends	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Share Price	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Yield	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Rating	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Notes	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
HBB Britannia Unit Trust Shares Ltd C120057									
Assets	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Liabilities	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Equity	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Expenses	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Net Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Dividends	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Share Price	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Yield	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Rating	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Notes	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
HBB Britannia Unit Trust Shares Ltd C120057									
Assets	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Liabilities	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Equity	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Expenses	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Net Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Dividends	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Share Price	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Yield	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Rating	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Notes	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
HBB Britannia Unit Trust Shares Ltd C120057									
Assets	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Liabilities	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Equity	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Expenses	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Net Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Dividends	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Share Price	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Yield	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Rating	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Notes	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
HBB Britannia Unit Trust Shares Ltd C120057									
Assets	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Liabilities	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Equity	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Expenses	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Net Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Dividends	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Share Price	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Yield	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Rating	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Notes	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
HBB Britannia Unit Trust Shares Ltd C120057									
Assets	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Liabilities	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Equity	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Expenses	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Net Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Dividends	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Share Price	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Yield	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Rating	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Notes	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
HBB Britannia Unit Trust Shares Ltd C120057									
Assets	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Liabilities	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Equity	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Expenses	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Net Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Dividends	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Share Price	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Yield	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Rating	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Notes	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
HBB Britannia Unit Trust Shares Ltd C120057									
Assets	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Liabilities	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Equity	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Expenses	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Net Income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Dividends	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Share Price	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Yield	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Rating	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12

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GUIDE TO UNIT TRUST PRICING

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INSURANCES

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July 1990

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Japanese rate rise increasingly likely

The Bank of Japan has intervened to support the yen for eleven successive trading days. The amount each day is unlikely to have averaged less than \$500m, so at a conservative estimate the Japanese central bank has spent around \$500m over the period.

UK clearing bank base lending rate 15 per cent from October 5

During the first two months of this year Japan's reserves fell by \$450m, and it looks possible that the figure is now approaching \$100m. This is very large intervention by any standard, even for a country with reserves of over \$800m, and is not a situation that the Bank of Japan will wish to continue for much longer. Washington is equally unhappy, as a weak yen will do nothing to correct the problem of Japan's extremely large

trade surplus with the US and will tend to deepen the less than cordial relationship that has become noticeable between the two countries. The Federal Reserve also intervened heavily to support the yen last week, but the market simply viewed this as a good opportunity to dispense with unwanted yen at a better price. Weak Japanese equities may have prevented the Bank of Japan from supporting the yen by increasing its discount rate, but share prices were much steadier last week. Mr Yasuhide Mieno, Governor of the Bank of Japan, is at present on a visit to Europe, and his absence could be another reason for the lack of any move, apart from foreign exchange intervention. He returns to Tokyo on Thursday, and if the yen is still sliding, while the stock market stays calm, an increase in the discount rate by 1/2 point to 5 per cent must be at the top of his list of options.

£ IN NEW YORK

Mar 9	Close	1 Month	3 Month
1.4155-1.4160	1.4155	1.4155	1.4155
1.4155-1.4160	1.4155	1.4155	1.4155
1.4155-1.4160	1.4155	1.4155	1.4155

STERLING INDEX

Mar 9	Close	1 Month	3 Month
100.00	100.00	100.00	100.00
100.00	100.00	100.00	100.00
100.00	100.00	100.00	100.00

CURRENCY RATES

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

CHICAGO

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

PHILADELPHIA

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

CURRENCY MOVEMENTS

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

OTHER CURRENCIES

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

STANDARD & POOR 500 INDEX

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FT-100 INDEX

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FT-100 INDEX

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FT-100 INDEX

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FT-100 INDEX

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FT-100 INDEX

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FT-100 INDEX

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FT-100 INDEX

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FT-100 INDEX

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FT-100 INDEX

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FT-100 INDEX

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

POUND SPOT - FORWARD AGAINST THE POUND

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

EXCHANGE CROSS RATES

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

EURO CURRENCY INTEREST RATES

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FT LONDON INTERBANK FIXING

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

MONEY RATES

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

LONDON MONEY RATES

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FT-100 INDEX

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FT-100 INDEX

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FT-100 INDEX

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FT-100 INDEX

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FT-100 INDEX

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FT-100 INDEX

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

LONDON RECENT ISSUES

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FIXED INTEREST STOCKS

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

RIGHTS OFFERS

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

BANK OF ENGLAND TREASURY BILL TENDER

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

WEEKLY CHANGE IN WORLD INTEREST RATES

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

BRITISH FUNDS

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

BRITISH FUNDS - Contd

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

AMERICANS - Contd

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

INT. BANK AND O'SEAS

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

CORPORATION BONDS

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

COMMONWEALTH & AFRICAN BONDS

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

LOANS

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

FOREIGN BONDS & RAILS

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

AMERICANS

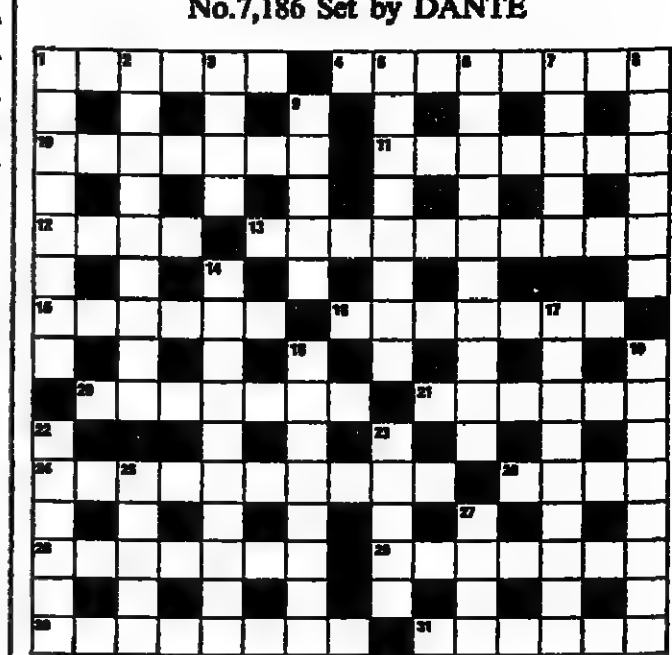
Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

UNLISTED

Mar 9	Close	1 Month	3 Month
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155
1.4155	1.4155	1.4155	1.4155

CROSSWORD

No. 7,186 Set by DANTE



- ACROSS
- 1 Ugly sister refused a drink on her return (6)
 - 2 They give lift when a flower comes to obstacles (5)
 - 3 Agreed everything was bound to come

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MINES - Cont'd							
Market Cap. Mil.	Stock	Price	Div Yld	YTD Gr'd	Last Yr	Dividends Paid	Cap Exp.

Miscellaneous		Injury		Infection		Neoplasia		Endocrine		Immunologic		Genetic		Other	
12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27

194.7	Bond Int'l. Gold	584	-	-	-	202
28.6	Burton Mining 10p.	26	-	-	-	202
1	Colby Res. Corp.	23	-	-	-	202
5.00	Cos. March, 10c.	61	Q206	9.5	17.7	Aug. Feb.
1	WORK Inc.	19	-	-	-	202
14.7	Exxon Int'l. 7 1/8p.	174	-	-	-	202
25.1	Exxon Minerals 2p.	86	N13.0	1.7	-	Jan.
0.57	Ex. Warrants	15	-	-	-	151
1.7	Exxon	67	-	-	-	277
11.6	Exxon Res.	634	Q206	1.2	12.4	Nov.-Jan.

49.3	Northgate CS2.....	3971	18.77	-	-	-	-
15.0	Truist Res.....	13	-	-	-	-	-
1.29	WRTZ 10p.....	535	125.0	3.7	18.9	Dec. Jul	2008
1.4	Thorn Res. Inc. I.....	14	-	-	-	-	-
1.4	Young Group 10p.....	158m	7.8	6.6	26.2	Apr Oct	2008

[illegible]

4.50 Caspen Oil 10g	v	131				1995
1.70 Duesen Antisep	v	79	1.0	1.7	22.5	July
6.00 ChemEx Int	v	15				221
1.50 Courtyard Lda Sp	v	10				222
1.00 Crown Eyeglass Sp	v	185				223
1.19 Dana Expt	v	15				224
7.10 Encampor Leisure Sp	v	14	40.30	3.27	12	January
3.30 Edinburg Hdb	2p	21				140
4.00 Elyton Expt	1 Sdg	60				141
0.50 Deo. Wmms	v	18				246
0.50 Deo. Wmms	v	18				247

20.0	Stampanoni	1.7	1.6			
19.5	Starkovskii	1.6	1.6			
19.0	Starkovskii	1.6	1.6	0.75	1.0	Jan-Apr
18.5	Starkovskii	1.6	1.6			
18.0	Starkovskii	1.6	1.6			
17.5	Starkovskii	1.6	1.6			
17.0	Starkovskii	1.6	1.6			
16.5	Starkovskii	1.6	1.6			
16.0	Starkovskii	1.6	1.6			
15.5	Starkovskii	1.6	1.6			
15.0	Starkovskii	1.6	1.6			
14.5	Starkovskii	1.6	1.6			
14.0	Starkovskii	1.6	1.6			
13.5	Starkovskii	1.6	1.6			
13.0	Starkovskii	1.6	1.6			
12.5	Starkovskii	1.6	1.6			
12.0	Starkovskii	1.6	1.6			
11.5	Starkovskii	1.6	1.6			
11.0	Starkovskii	1.6	1.6			
10.5	Starkovskii	1.6	1.6			
10.0	Starkovskii	1.6	1.6			
9.5	Starkovskii	1.6	1.6			
9.0	Starkovskii	1.6	1.6			
8.5	Starkovskii	1.6	1.6			
8.0	Starkovskii	1.6	1.6			
7.5	Starkovskii	1.6	1.6			
7.0	Starkovskii	1.6	1.6			
6.5	Starkovskii	1.6	1.6			
6.0	Starkovskii	1.6	1.6			
5.5	Starkovskii	1.6	1.6			
5.0	Starkovskii	1.6	1.6			
4.5	Starkovskii	1.6	1.6			
4.0	Starkovskii	1.6	1.6			
3.5	Starkovskii	1.6	1.6			
3.0	Starkovskii	1.6	1.6			
2.5	Starkovskii	1.6	1.6			
2.0	Starkovskii	1.6	1.6			
1.5	Starkovskii	1.6	1.6			
1.0	Starkovskii	1.6	1.6			
0.5	Starkovskii	1.6	1.6			
0.0	Starkovskii	1.6	1.6			

[illegible]

Stock Exchange trading classifications are indicated to the right of security names: **A** Alpha, **B** Beta, **Y** Gamma. Unless otherwise indicated, prices and bid dividends are in pence and denominations are 25p. Yields are based on ex-dividend prices, annual, subjected to ACT of 25 per cent and allow for value of declared distribution and rights.

① "The Stock"

② Interim share increased or resumed

③ Interim share reduced, pending or deferred

④ Free to new investors on application

- Not subject to some degree of regulation on listed securities
- Not officially listed.
- Price at time of suspension
- Indicated dividend after pending scrip and/or rights issue
- Merger bid or reorganization in progress
- Not comparable
- Same interim; reduced final and/or reduced earnings
- Indicated
- Forecast dividend.

Dr. Bogdan France, Fr. French France 65 Yield based on
assumption Treasury Bill Rate stays unchanged until maturity of
stock, a Annualized dividend, & Figures based on prospectus of
either offer estimate, & Cents, & Dividend rate paid or payable at
part of capital, a Redemption yield, & Flat yield, & Accumulated
dividend and yield, & Accumulated dividend and yield after scrip issue
Payment from capital source, & Kenya, an Interest higher than
previous total, & Rights issue pending & Dividend and yield excluded
a special payment, & Indicated dividend, & Forecast, or estimate

Dividend and yield based on prospectus or other official estimates for 1988-89. C Assumed dividend and yield after pending security offerings. D Dividend and yield based on prospectus or other official estimates for 1989. E Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimates of unannounced dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Flows based on prospectus or other official estimates for 1987. Q Flows based on prospectus or other official estimates for 1988. R Forecast. Unannounced dividend. T Flows assumed. W Pro forma

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

IRISH		Holten Ridge	98
Cap. 8 1/2% Ia. 1991	596	ING	2150
Spec Cap La. 1996	596	United Drug	2650
Fin. 13% 97/02	5307 1/2		

TRADITIONAL OPTIONS
3-month call option

Industrials	#	Rank	Org. Ord.	68
Nitell-Lyons	39	Reel	Initial	33
Verstrand	51	STC		28
Koster (BSMA)	54	Sears		91
BAT	55	Su/KI	Boothman A.	46
DOC Corp.	65	TI		38
STR	34	TSE		11
Barclay	49	Tesco		27
Star Circle	19	Thom Enli		61
		Trust Houses		22

1713	9	Welcome.....	48
1714	25		
1715	27		
1716	40		
1717	40		
1718	31		
1719	40		
1720	7		
1721	21		
1722	28		

Property	
1723	32
1724	5
1725	44
1726	44

Oil		Oil	
Arabian	19	Arabia Petrol	54
Burmese	33	Brit Petroleum	28
UKA	18	Burmah Oil	32
London	25	Canary Petrol	12
Manchester Ship	25	Gaelic Res.	41
London	25	Premier	18
Agal & Co	34	Shell	37
Agar Service	26		
Agar Bank	22		

24	29
25	30
26	31

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on Page 31

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NYSE COMPOSITE PRICES

Continued from previous page																			
High Low Stock					Div. Yld. %					High Low Stock					Div. Yld. %				
Close Prev.					Close Prev.					Close Prev.					Close Prev.				
197	101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119
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NASDAQ NATIONAL MARKET**4-yr prices March 8**[illegible]

AMEX COMPOSITE PRICES

43m price

[illegible]

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The Business Column

Making a better case for IT investment

A LARGE Anglo-American company is using a technique to justify its investments in information technology (IT) which seems to offer significant advantages over existing methods.

The company, which for the moment prefers to remain anonymous, was tracked down by the Brussels-based consultancy OTR. The consultancy was looking for a practical method of IT cost justification which, as Dr Colin Jackson, OTR managing director, says, "encompasses infrastructure investment and which worked."

The company's technique, the "IT Investment Grid," is an attempt to formalise the balance between risk and cost.

Why such a solution is needed has been well rehearsed. It is difficult to provide adequate justification for investments in IT technology which help a company perform better and increase the quality of its dealings with customers and suppliers but offer no clear financial return.

Companies, nevertheless, continue to spend money on data communications networks, personal computers and artificial intelligence without, it seems, formal justification. Too many of these investments are acts of faith, discontinued when their corporate "champions" move on.

Four categories

OTR has devoted the latest issue of its regular research report to an examination of the IT Investment Grid. It is no magic bullet. Indeed, used properly, it involves board members in a more detailed review of their companies' ambitions and limitations than they might like.

The Grid starts from the notion that there are four categories of IT investment. The "Turnaround" category is high cost and very high risk but would be critical to the future success of the company. Conventional return-on-investment analysis is no help here. Concentration on return rather than market share lost US semiconductor manufacturers the battle for the world D-Ram market against the Japanese, OTR argues.

"Strategic" investments are also high risk but they are or have become critical to the firm's business strategy - Sainsbury's installation of scanners at its checkouts or the Automobile Association's investment in an advanced data communications network. "Core" investments are critical for the current operations of the business. OTR describes how International Business Machines invested in design software that enable it to assemble personal computer printers in one tenth the time taken by its then supplier Epson of Japan.

"Staple" investments are low cost and low risk. They include payroll systems, budgetary control systems, personnel systems and the like.

Allocations

To use the Grid, the board has first to decide what sort of company it is and then allocate its investment spending between the four categories. An entrepreneurial company might have 20 per cent of its spend in turnaround and 25 per cent in staple. A conservative company might avoid the turnaround category altogether.

The next step is to monitor existing investments and allocate them to the four categories. Inevitably there will be a mismatch; some companies will find this stage very revealing. Detailed negotiations at board level will be necessary to match the company's desired profile with its actual spending. "This dialogue and iteration process is the most important part of the IT Grid System," OTR says. "We believe that companies attempting to avoid this will have no success with the process at all."

The Grid will not satisfy everybody's idea of how to justify investment in IT. It seems to work best in large companies with clear company standards and policies. But it is a useful starting point. Its clearest benefit, perhaps, is that it forces board members to overhaul their ideas of what their company is about and where it is going.

Alan Cane
How should you justify infrastructure investment in information technology? Available on subscription from OTR Group, (01) 402 3574.

"I SUPPOSE I would be characterised by the Financial Times as a left-wing playwright," says Stephen Poliakoff, "but these aren't party political matters. It is something that's just common sense and needs to be written about, questioned, and dramatised because it is crucial to our well-being."

Poliakoff - volatile, intense, and prone to bursts of passionate gestulation which betray his Russian lineage - is discussing free enterprise.

More accurately, he is talking about one strand of his latest work, *Playing with Trains*, which is nearing the end of its run at The Pit, the Barbican's smallest auditorium.

Why, the play asks, has Britain squandered the fruits of its gift for invention by allowing so many good ideas to be developed abroad, or worse still, by leaving them on the drawing board, withering away through a lack of funds?

Poliakoff's CV is impressive. By 1976, when he was only 24, he was already Writer in Residence at the National Theatre and winner of the Evening Standard's award for Most Promising Playwright. Since 1971 he has written 17 stage plays, seven television dramas (including adaptations), and three feature films.

When talking about his plays, Poliakoff has a tendency to lop off the ends of sentences as though his ideas are too important to be voiced in strict succession. Bearded and enthusiastic, he bears a passing resemblance to an inventor himself, but that is a creative strain carried by other members of his family, Jewish Russians who fled the Soviet Union for Britain in 1924, after the installation of the Stalinist regime.

"My grandfather [Joseph] was an inventor," says Poliakoff. "He worked with Marconi and came to England before the First World War. He was deeply interested in various forms of early electronics, but his particular achievement was to be one of the first people in the world to record sound on film, in 1900."

Joseph Poliakoff was tolerated by the Lenin Government, despite his privileged lifestyle before 1917, because of his talent for invention. Poliakoff has already dramatised that expertise in an earlier work, *Breaking the Silence*, which played at The Pit five years ago.

"There's a lot of science in my family," explains Poliakoff, "but I've only become interested in it recently." In part, *Playing with Trains* draws its inspiration from the British business career of the Poliakoffs. Having started a new life in the UK during the 1920s and 1930s they set up a company making hearing aids. In the early 1950s, St Thomas's Hospital in London asked the family firm, which was now being run by Poliakoff's father,

MONDAY INTERVIEW

Making invention necessary

Playwright Stephen Poliakoff shares his hopes for a revival in a business-like backing for British ideas with Andrew Hill

Alexander, to develop a "staff locator" - a device which would summon hospital doctors to emergencies without using a tannoy or bell system. The firm created the ubiquitous "bleeper," which provided the foundation for a quoted company, Multitone Electronics, which still makes radio pagers and other communication devices. Alexander Poliakoff is the group's president.

That provides a partial explanation of why the central character of *Playing with Trains*, Bill Galpin, is an engineer and entrepreneur.

Even so, it seems an unusual choice of hero for a writer

gramophone, and uses money from the sale of his company to invest in other business ideas.

Success breeds publicity, a platform from which the iconoclastic Galpin is able to lambast his more conventional counterparts in business for their reluctance to follow his lead.

"I grew up in a business culture," says Poliakoff, "and naturally started thinking about the history of invention and innovation in this country: why we created so much - and lost so much. I must say I wanted to go into the heart of the cliché: the 'enterprise culture'."

"At the same time, I didn't want the play just to be concerned with 'the Thatcher years,' to use another cliché, because the reason we have such a poor history goes back further - from the 1800s, and Wilson's white heat of the technological revolution, right up to Lord Young and Nicholas Ridley at the Department of Trade and Industry with their enterprise adverts on the TV."

Galpin takes on civil servants, television interviewers and at one point a very sympathetic business community with evangelistic fervour, most notably in a set-piece speech to the Institute of Directors at the Albert Hall, which also marks the beginning of his inevitable decline.

"We allowed the jet engine to get away, of course, didn't we?" rails Galpin. "The whole commercial development of penicillin, the computer, naturally, even an early form of Lego, the most successful toy in history - because we just wouldn't back them when they asked us."

Poliakoff says he was also haunted by the Clive Sinclair story, although he stresses that Galpin, who is a gifted inventor rather than a gifted investor,

PERSONAL FILE

1952 Born. Educated at Westminster School and Cambridge, where he read History

1970 Won London Evening Standard award for Most Promising Playwright

1976-77 Writer in Residence, The National Theatre, London

1980 Caught on a Train (BBC) wins Bafta award for Best Single Production

1984 Breaking the Silence (Royal Shakespeare Company)

1988 Playing with Trains (RSC) and She's Been Away (BBC Films)

whose early work - plays like *Hitting Town* (1975) and *City Sugar* (1978) - was concerned less with the mechanics of capitalism than with the bleakness of urban living.

"Most people that make money in fiction turn into monsters," admits Poliakoff.

When the play opens, it is 1967 and Galpin has already made a great deal of money. He has backed development of an automatic turntable, revolutionising production of the

'Queue' for counsel protects civil rights

The steps leading to the appalling fate confronting Mr Farzad Bazoft, the Observer journalist held in Iraq, contain a sharp reminder of the universal precept that persons accused of crime must have all the procedural safeguards of a fair trial, including counsel of their choice. The lesson has a peculiar relevance to the current politico-legal scene in Britain where an inalienable right is the topic of dispute between barristers and solicitors and is being fought out in the Courts and Legal Services Bill.

Nobody even passing familiar with the long struggle which took place in Britain to secure the right to be represented by counsel can doubt the importance of an accused's prerogative to instruct his or her own advocate. The rule that a barrister must accept a brief on behalf of any client who wishes to retain him to appear before any court in which he holds himself out to practice - the "cab-rank" principle - was finally established at the end of the 18th century. It arose over the prosecution of Tom Paine for publishing the second part of his *Rights of Man*. The great advocate, Erskine, who accepted the retainer to defend Paine and was deprived of his office as Attorney-General to the Prince of Wales for doing so, spoke the classic words: "From the moment that any advocate can be permitted to say that he will or will not stand between the Crown and the subject arraigned in the court where he daily sits to practise, from that moment the liberties are at an end."

The Bar has attached such importance to the cab-rank rule that its parliamentary supporters in the current legislation are insisting that if solicitors are to be accorded the same rights of audience in the courts as barristers they should be professionally bound to the same rule of etiquette. The Royal Commission on Legal Services, in 1979, which recommended that there should be no general extension



JUSTINIAN

of the rights of audience of solicitors in the higher courts, was insistent on the maintenance of the cab-rank rule: "We consider it right to ensure that when the services of a barrister are required, he should be selected for his capacity to handle the case without regard to any other considerations and should accept the case without regard to his personal view, whether about the client, the nature of the case, or in the case of crime, the offence charged."

Quasi-political cases may be handled more effectively by an advocate whose personal views are neutral to the cause

Yet the solicitors' branch of the profession is stoutly resisting the application of the cab-rank rule which has not hitherto applied to them in the course of their practices, even as advocates in the lower courts where they have a right of audience and do frequently appear. It is, thus, not only laymen on both sides of politics who think that a barrister (and hence any advocate) may, and even should, pick and choose the cases in which he is prepared to appear.

The argument for not applying the rule to solicitor-advocates is that while the rule enforces a high-minded principle, it is more honoured in the breach than in the obser-

vance. And, in practice, no prospective client will ever be without legal representation; there will always be some lawyer who will take on his case. Such a riposte misses the point. If a client wishes to brief a particular counsel, it is no answer to say that he can always have someone else. It is not unknown for barristers to make excuses and decline to act, their true reason being that they think that their professional reputation might be damaged by appearing on behalf of an unattractive client or a socially-discreditable cause. The barrister who sympathises with his client or the cause that the client represents may be the best advocate to plead the case in the most professional manner. The case of a quasi-political nature may be handled more effectively by the advocate whose personal views are neutral to the cause.

The more compelling case for reserving the cab-rank rule is the persistent lack of enforcement by the guardians of the professional obligation. When, for example, a group of left-wing lawyers in a set of barristers' chambers declared some years ago that none of them would accept briefs from landlords in dispute with their tenants, no steps were taken to discipline them.

If there are innumerable instances where barristers have sought to justify a refusal to accept a particular brief, because of unavailability or the potential length or complexity of a case, there are many unpublicised and unsung cases where barristers have foregone more attractive and more lucrative briefs in adhering to the cab-rank rule. Although the barrister may probably demand a proper professional fee for his services, there are even cases where the less-lucrative legal aid fee (or even no fee) has been accepted by counsel appearing in an unpopular cause. The cab-rank rule still stands as a monumental unassertive, professional propriety in a world where civil liberties are too often in jeopardy.



'I wanted to go to the heart of that cliché: the enterprise culture'

is not based on Sinclair. "I thought that was such an English thing: the way that Clive Sinclair started off the decade as a model hero of the enterprise culture - not that the term had been coined then - and then became a public joke, much reviled. Jokes are still made about him on the telly, although the failure [of the C5 electric car] is already five years old."

"It's a deeply embedded attitude. I think the Americans would have said, 'OK, it didn't work, but what's the next thing?' We just delight in somebody trying to do something and coming a cropper."

Galpin's eventual downfall combines the ridicule faced by Sinclair, and that most English of confrontations, a jury trial. Poliakoff calls the play "the great sport of the 1980s." He set in on the Jeffrey Archer case as part of his research and the courtroom scene provides the principal set-piece of the second half of the play.

But Poliakoff insists that it is pure coincidence rather than a direct reference to Sinclair that Galpin tries to put into action - and which helps bring him down - is an im-

itative road-rail vehicle. Poliakoff shares with Clive Sinclair an amazed disbelief that a Government which worries about how few young people wish to study science should then start charging for entry to the Science Museum in London. He traces the reasons for the dearth of good British engineers back to an innate snobbery about people who make things, and the influence of generations of arts-biased Oxbridge graduates. As he recalls, fellow Cambridge arts students thought "engineering undergraduates were the pits - worse than rugby buggers."

Since then, Poliakoff believes successive Governments - in particular under Margaret Thatcher - have stifled industrial regeneration at its roots: "In the late 20th century it is very, very difficult for the person or idea that doesn't come within the Oxbridge or university structure to succeed, although historically the ideas which have changed all our lives have usually come from outside that structure."

Strangely, there also seems to be an overlap with Mrs Thatcher's views. The playwright and the Prime Minister both admire Victorian values - in Poliakoff's case, industrial values such as those which built and filled the Science Museum.

As a result, Bill Galpin is a throwback to the Victorian patron-industrialist. "There were all sorts of dreadful things about the Victorian age, but there was also a sort of vision, a worship of engineering," explains Poliakoff. "Now, people who have vision are thought of as deeply vulgar."

He believes short-term thinking is one of the principal reasons for the decay of heavy industry in the UK. He points out that West Germans, working within a longer-sighted investment tradition, simply do not understand his new play and its indictment of sluggish central government agencies, which sit on good ideas until they die. "When they see or read this play they say, 'My God - you fools!'"

Suddenly, the writer grows shy about pontificating on the reasons for Britain's alleged industrial decline. Puzzled by the lack of 20th-century fiction about science and innovation (he is working on another play about the subject at the moment), Poliakoff is amazed

that it should fall to a writer to try to shake up the attitude of industrialists. "Why don't businessmen talk about this wider vision?" he asks.

Playing with Trains - which ends with the gloomy nemesis of Bill Galpin, a reclusive hobo up in one of the draughty concrete buildings he once criticised - is his contribution to what he believes should be a noisy debate.

"Several businessmen and senior civil servants have written to me, saying 'There's a lot of truth in this' and 'You've opened our eyes,' which staggered me. But although business people agree with it in retrospect, they wouldn't have responded to a real Bill Galpin at the time. We'd all say, 'Who does he think he is?'"

"What I was trying to do was take a very metallic subject and write about it with some passion and some sensual power. I can't answer lots of questions, but I can set up a story of one man, which jangles up people's thoughts about why we've fallen behind."

The last performance of *Playing with Trains* at The Pit is on March 17.

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THE SOVIET UNION

Section 3

Monday March 12 1990

A superpower in turmoil

The Soviet Union is in the throes of a second social revolution, the effects of which may well be as far-reaching as the 1917 October Revolution which began the Socialist Experiment.

President Mikhail Gorbachev's perestroika is calling into question all the basic tenets of Soviet society, and the whole foundation of post-war international relations.

Already its effects across the world have been dramatic, in progress towards global disarmament, dismantling the superpower rivalry, bringing peace to regional conflicts and causing the collapse of communist rule throughout eastern Europe.

At home, the Communist Party has agreed to give up its monopoly of power, but the multi-party system to come is still clouded by uncertainty. And the economy is in dire crisis.

This survey assesses the problems and prospects for a superpower in turmoil.



IN THIS SURVEY

POLITICS

The Communist Party has lost its political authority, but does not know how to abandon its power

CONSTITUTION

If reform succeeds it will be largely because a state of law is painfully being built

ECONOMY

Economic reform in the Soviet Union faces just three obstacles: the legacy of the past; the chaos of the present and the conflict over the future

FOREIGN AFFAIRS

It is common to hear educated Russians mock the grotesque and overblown pretensions of their country, describing it as a 'Burkina Faso with nuclear weapons'

FINANCE

'We should turn all state property into shareholder property and create a stock exchange'

INDUSTRY

'They should all read Lewis Carroll. This economy is like Alice in Wonderland'

ENERGY

'Ever since Lenin's famous dictum that communism equalled soviets plus electricity, energy has assumed an exaggerated role in the economy'

CINEMA

Having been given the right to say what they want, film makers are finding that they were more comfortable when they had something to fight

JOHN BROWN

1981 Gas turbines for Trans-Siberian pipeline

1988 ASETCO first joint Soviet-British engineering company formed

1990 Joint ventures gather momentum

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OIL & GAS
POWER ENGINEERING
PLASTICS PROCESSING SYSTEMS
PRODUCTION AUTOMATION
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SOVIET UNION 2

Mr Gorbachev has lifted the lid of reform and released an explosion of demands. Quentin Peel examines the impact

Teetering between revolution and disintegration

THE FUTURE of the Soviet Union is in the balance, teetering between revolution and disintegration.

On the outcome hangs the fate of President Mikhail Gorbachev, the outstanding world leader of the late 20th century, and a generation of middle-aged revolutionaries who have devoted their lives to waking their nation from more than 70 years of a "Zionist dream," to quote one of his closest advisers.

It is an outcome which will also have far-reaching consequences for the rest of the world, deciding whether the present climate of disarmament and co-operation can lead to a period of unprecedented stability and economic growth, or whether Europe will once again become a cockpit of squabbling nationalities, dominated by the awful prospect of a pauperised superpower with a huge nuclear arsenal.

This week, almost five years to the day since he succeeded as the Soviet Communist Party leader, Mr Gorbachev is set to become executive president of the Soviet Union — with sweeping powers virtually independent of the party which made him.

From one point of view, the move is a logical consequence of the process of democratisation which the Soviet leader embarked on in 1988, when he switched his priority from economic to political reform. It creates a directly elected presidency, its powers balanced by an elected parliament, and distances the once all-powerful party from the direct levers of power.

On the other hand, Mr Gorbachev's rush to push through drastic constitutional change, and create such a powerful presidency, can be seen as a

gamble to save perestroika from the twin monsters it has spawned: the economic collapse of the old system, and the nationalist unravelling of the Soviet empire.

When he launched perestroika in 1985, even his closest advisers admit that he had no real inkling of the extent of the revolution it implied.

"He did not come with all his ideas prepared for perestroika," says Mr Georgi Shakhnazarov, the political scientist (and writer of science fiction) who is one of the three personal aides in his private office. "But he was prepared to the extent that he understood this system could not survive any longer, that we had to restructure and make really revolutionary changes in the system. Step by step, we go deeper."

The crucial point which the Soviet leader and his fellow revolutionaries missed was the need to "de-Stalinise" Soviet society, to remove all traces of the tyranny imposed by the Soviet dictator in every aspect of Soviet life, in the economy, politics, culture, even in sport.

The question that now has to be faced is whether de-Stalinisation does not inevitably mean the destruction of the communist system, the heritage of 1917, and starting again from scratch.

Mr Gorbachev is convinced that some sort of pragmatic Leninism is possible — a human socialism, with a multiplicity of economic and property forms (no rigid state monopoly), a revival of peasant farms (just as his own father had one), and above all, the recovery of individual initiative.

Parallel with that is his concept of a new Soviet federation — which he openly admits has

never existed in the USSR beyond the empty words of the constitution. "Do you know what a federation is?" he asked of Lithuanians demanding outright secession. "How could you know? You have never lived in one."

Yet just as the republics are supposed to be getting the genuine autonomy which they are promised, Mr Gorbachev is establishing a strong central presidency. Can the two combine?

His most extraordinary achievement to date has been to persuade the representatives of the old regime to give up without the sort of backlash or bloodshed seen in Romania. Not only in the rest of eastern Europe, but also at home.

It was strikingly illustrated when the conservative majority in the ruling Soviet Communist Party central committee voted unanimously in February both to abandon Article Six of the constitution — entrenching the Party's effective monopoly of power — and agree to an executive presidency beyond the control of the Politburo. Speaker after conservative speaker had denounced the plans as a betrayal of all the Party stood for. Yet when it came to the vote, only Mr Boris Yeltsin, that professional rebel, voted against — because the plan was not radical enough.

It is as if the old hierarchies knew that they were bankrupt of ideas, and that their cosy old corruption might not be quite so brutally exposed if they went willingly.

Then Mr Gorbachev has also played a devastating, but high-risk, political hand. Unlike his predecessor, Mr Nikita Khrushchev, who tried to de-Stalinise the system from the top, and was overthrown by it, Mr Gor-

bachev has chosen deliberately to stimulate a revolution from below. On the eve of that crucial February plenum, popular revolts in the provinces overthrew a string of top conservative party leaders — in Volgograd, Tyumen, Sverdlovsk and elsewhere.

Now there is a real possibility that those mass demonstra-

tions will continue, demanding not just the heads of the leaders, but of the whole party structure. The atmosphere in the country is extraordinarily tense, and there is a real fear of precipitating the sort of bloodshed unleashed by Ceausescu in Bucharest. Might this in turn produce a conservative coup?

"The process of perestroika has only lasted five years. I cannot say people have changed drastically," a government minister said recently. "We frequently used to use the word irreversible. Then suddenly we came to understand that only some things are irreversible. In human life, maybe the only death is irreversible."

The problem is that when Mr Gorbachev lifted the lid of reform, he released two forces: an explosion of pent-up demands, both nationalist and

economic, and an explosion of ideas.

The first sort of explosion has meant that even where perestroika has improved the situation, expectations have grown even faster. There is today far more regional autonomy from Moscow already — not least because the old lines

run even faster than supply.

The raised expectations have also affected the whole attitude to reform. The latest elections for republican parliaments saw a dangerous amount of apathy among voters, faced with a bewildering choice between candidates they had never heard of. The voters watch the Supreme Soviet struggling to come to terms with a genuine parliamentary system, and see only wrangling over procedure: they want action, goods in the shops, not words. There is a crisis of confidence in perestroika.

Yet the explosion of ideas is, on balance, to Mr Gorbachev's

advantage. Young people have burst out of the ideological shackles (removed their "ideological spectacles," as Mr Nikolai Petrakov, Mr Gorbachev's economic adviser, puts it) and are embracing new forms of economic and political activity with a vengeance. This is just beginning to make inroads into the decades of government propaganda, and deep-seated peasant suspicion, that have undermined any effort at entrepreneurial spirit.

The result is fairly anarchic, or for the potential foreign investor looking for a joint venture, something like coming to the Wild West. But if that energy explosion can be harnessed into a new system, it provides Mr Gorbachev with his chance.

Whether he succeeds in the end or not, Mr Gorbachev's survival so far is remarkable: he has shown an ability to adapt to changing political circumstances, to outmanoeuvre

a conservative majority in all the leading institutions of the state and party. He has certainly benefited from the fact that a great creaking empire can suffer revolts at its fringes, and still not fall apart.

And one human achievement must not go unrecorded: Mr Gorbachev has reduced — not yet entirely abolished — the fear which used to permeate the system. Glasnost means that ordinary people worry far less about speaking their minds.

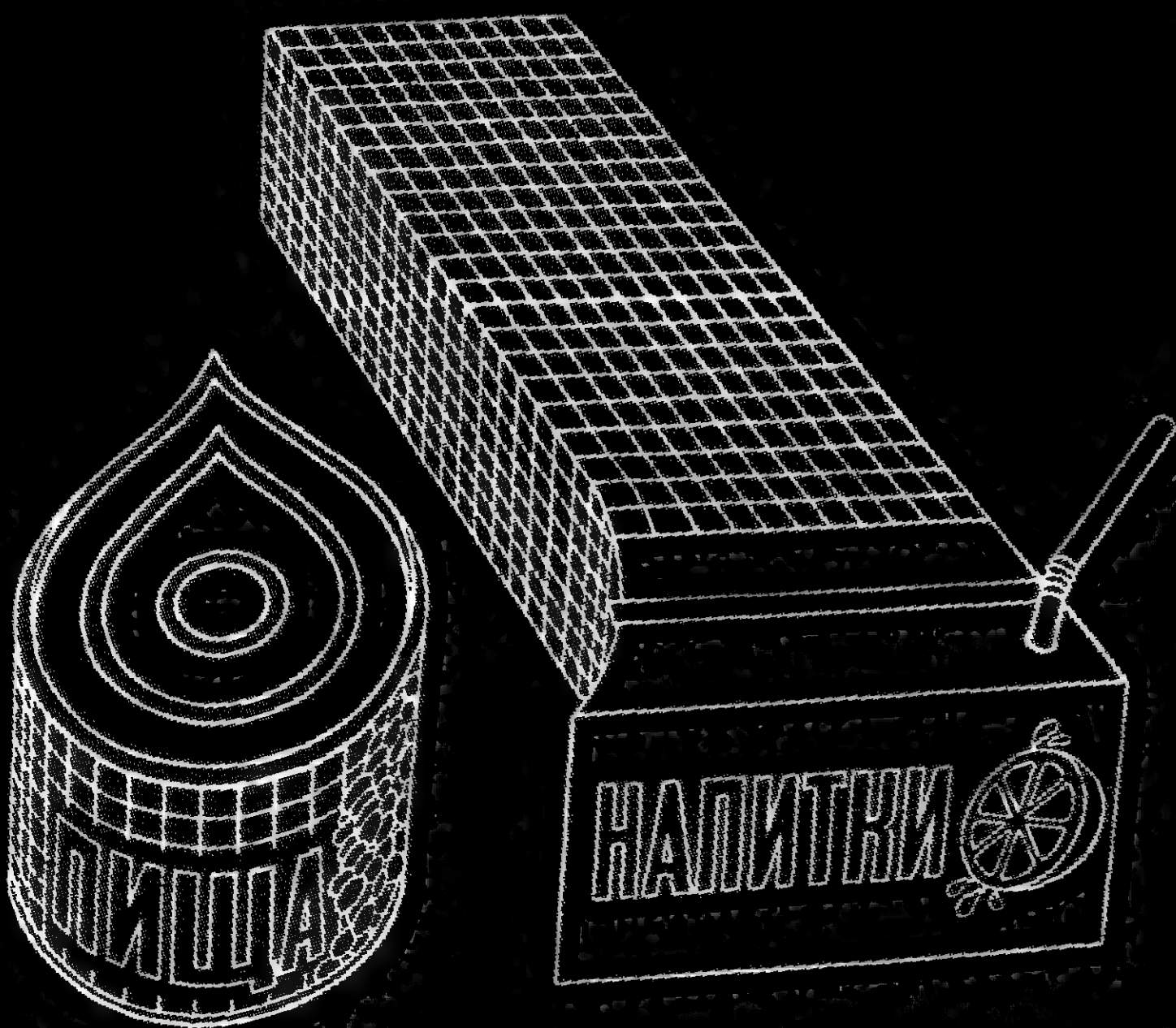
"Fear is genetically to be found in our people," says Mr Vyacheslav Shostakovskiy, Rector of the Moscow Higher Party School, and a leader of the social democratic reformers within the Communist Party. "Many people said when perestroika began that its purpose was simply to identify the dissidents and bring them to the wall. Now at last the people's mood is beginning to change."

Even if Mr Gorbachev does not survive the course — the nine years' more as president he can constitutionally expect — if he abolishes the fear in the system, it will have been an extraordinary achievement.



A cartoon by L. Smirnov from a book of satirical cartoons entitled 'Joking Aside' (Progress Publishers Moscow). The book takes a sideways look at the era of perestroika.

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KEY ECONOMIC STATISTICS

	1989	1988	1987
GNP total (\$bn 1985)	2,144.5	2,154.8	1,622.6
By sector of origin			
Industry	744.5	757.8	642.4
Agriculture	415.8	413.5	384.8
Other productive sectors	557.8	559.6	456.7
Non-productive sectors	428.7	424.1	388.7
Percentage growth:	1989	1988	1987/88
GNP total	-0.5	+1.6	+2.9
By sector of origin			
Industry	-1.7	+1.5	+1.6
Agriculture	+0.5	+1.0	+1.4
Productive sectors	-0.3	+2.7	+2.3
Non-productive sectors	+0.6	+0.2	+0.9
Balance of payments in convertible currencies (\$bn)	1989	1988	1987
Merchandise Exports	43.1	38.2	35.2
Merchandise Imports	available	38.9	34.8
Balance		4.2	3.4
Invisibles		-0.4	-0.6
Current Account		+3.8	+2.8
Imports and exports by direction	1989	1988	
Imports world		Not available	107.9
EC-East			57.44
EC-West			29.82
Other			19.49
Exports world		Not available	110.51
EC-East			54.12
EC-West			27.41
Other			28.97

Source: Plan Econ; UN

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POLITICS

SOVIET UNION 3

Quentin Peel reports on the rise of the parliamentary system

Thriller for armchair viewers



AS IF glasnost were not enough, Soviet television viewers have suddenly been given a whole new galaxy of stars to contend with.

Every night at 7pm the new soap opera begins. There are familiar villains, flawed heroes and heroines, a querulous question-master, and lots of confusion, with the plots often being rewritten in the course of the drama.

The stars are people like Mr Yuri Sobchak, a rising lawyer from Leningrad, with a natty line in loud checked jackets; or Mr Valentina Shevchenko, an unrepentantly conservative old Bolshevik from Kiev; Mr Vladimir Yarin, the populist hero of industrial working classes of the Ural mountains and scourge of the intelligentsia; and of course battling Mr Boris Yeltsin.

The setting is the Supreme Soviet, coming to the viewers almost live from the Kremlin. Occasionally they are treated to a bumper issue, known as the Congress of People's Deputies, with five times as many

actors, and proportionally more mayhem.

The whole process is called learning to build a parliamentary system in public, and it is possibly the most important single achievement of President Mikhail Gorbachev's perestroika process so far.

Confusion is inevitable for participants who only one year ago were used to a parliament which met for two days a year, and said yes to every proposal put to it. Viewers are expressing the well-known criticism that it is all words and no action. Yet the learning process has been extraordinarily swift.

It has to be, for the Supreme Soviet is attempting to draft nothing less than the entire legal basis for a law-based state, where before the law was either ignored, or did not exist.

The process of attempting to create new laws is taking place against a background of furious public debate in the streets. Each attempt at economic reform - be it price liberalisation, cuts in state spend-

ing to trim the huge budget deficit, or the legalisation of firms of private enterprises - is met with an angry backlash from the likes of Mr Yarin, leader of the conservative United Workers' Front.

Now the Supreme Soviet is facing a big new challenge, before it has even come to terms with its old job: it has to learn to live with an executive president, with the power to veto its decisions, and somehow find ways of controlling the ever-present danger of untrammelled executive power.

There are already many problems in the system, with which the People's Deputies have to contend. For a start, the housing crisis in Moscow means they are all living hand to mouth in the cramped quarters of the Moskva Hotel - a stone's throw from the Kremlin, but scarcely congenial surroundings to recover from a day's labour in committee.

They have only the most rudimentary research facilities at their disposal - who needed

any independent information in the past? Government ministries are ordered to answer their questions, but they still may take weeks to do so. There is a total staff of 600 in the Supreme Soviet secretariat - about one-fifth of the number working in the US Congress - attempting to service all 2,250 People's Deputies.

They can also claim up to 100,000 a month for an aide - just about enough for a young researcher, or for a secretary, but not for both.

Perhaps more serious for a new parliament is the lack of legal draftsmen capable of writing laws which are unambiguous, and capable of clear interpretation in court. When the Supreme Soviet passed a law outlawing strikes in key industries last year, Mr Vadim Bakatin, the Minister of the Interior, openly admitted that it was unenforceable - because it failed to provide any penalties for specific offences.

In a classic understatement, Mr Vladimir Yakovlev, the new Minister of Justice, admit-

ted last year that the problem with Soviet legislation was that it was all written in the language of newspaper editorial. As for understanding what is happening in the parliament, and what precisely has been agreed, this will not be possible until the assembly sets up adequate printing facilities, to produce enough copies of draft laws, their proposed amendments, and verbatim accounts of each day's proceedings. All that is still far ahead.

In spite of the absence of a recognised multi-party system, the Supreme Soviet is already accommodating a variety of clear interest groups, and in the shape of the Inter-Regional Group, something which looks suspiciously like an opposition.

The complication is that frequently the "opposition" is really on the side of Mr Gorbachev in pushing for more radical reform, and the "loyal" ranks of deputies are the ones most unhappy.

It was Mr Sergei Stankevich, an articulate young member of the Inter-Regional Group, who

spelt out most clearly the concerns about establishing a powerful presidency for Mr Gorbachev - before the Supreme Soviet had really established itself as a strong democratic institution.

The Soviet leader himself was only persuaded of the need for an executive presidency in recent months, according to Mr Georgi Shakhnazarov, his political adviser. "Mr Gorbachev said a presidency was not in the Soviet tradition," he said. "Our tradition is more collegial."

The truth is that the Soviet legislators are writing and rewriting their constitution as they go along. The whole relationship between the directly elected Congress of Deputies, and the indirectly elected Supreme Soviet, may well be changed. There are many outside the official state and party structures who would argue that the whole system of Soviets is incapable of accommodating genuine democracy.

Mr Gorbachev is right. He never talks about democracy, only democratisation, says Ms Katya Podolskaya, a full-time activist in the Democratic Union campaigning for a western-style multi-party system. "We believe that the Soviet Union cannot come to democracy through the Soviets."

THE COMMUNIST PARTY

Finally, the end of the Party

MR VYACHESLAV Shostakovsky, Rector of the Moscow Higher Party School, is a top party official - and a pretty wild radical in the ranks of the ruling Communist Party. He is a founder member of the dissident Democratic Platform, which puts him politically on a par with the hugely popular communist maverick, Mr Boris Yeltsin.

Yet in the latest elections to the Russian parliament, Mr Shostakovsky was convinced that he was not going to win. The simple reason was that the voters would reject him because of his job.

"They will identify me with the party bureaucracy," he said. "Some of the voters are extremely negative about this."

The backlash against the ruling party has finally come into the open in every part of the Soviet Union, manifested not just in the secrecy of polling booths, but out on the streets.

In 1989, the great debate was whether the Communist Party would remain a monolithic ruling party, or become a genuinely pluralist party, with open disagreements within its ranks, and a federal structure to accommodate the rebellious non-Russian republics. In that way, it was argued, it might

keep its effective monopoly of power.

In 1990, the question is far more about whether the party can survive at all, in what is now seen as the inevitable future of a multi-party system. At the very least, the debate has become one about when the party will split, not if it will do so.

"We don't really have any other forces today which are authoritative and influential," Mr Shostakovsky says. "Other structures are being formed, but they are still at a very initial stage. Yet in spite of its well-developed structure and mass membership, you cannot say that our party as such is very authoritative. That is the paradox."

In 1988, some 18,000 party members handed in their cards - only a tiny proportion of its 19m plus membership. Last year, the number increased tenfold, Mr Shostakovsky said, although the figures have yet

to be published.

The point is that the Communist Party has lost its political authority, but does not know how to abandon its hold on power. Every significant position in the Soviet economy has been filled for years by a party appointee - and usually by one who has proved his or her credentials by blind loyalty, not ability. Every one of those members of the so-called *nomenklatura* has a paramount reason to resist any dilution of party power.

Mr Nikita Khrushchev attempted to reform the *nomenklatura* from above, and was eventually overthrown by it. Mr Mikhail Gorbachev is attempting to reform it by deliberately encouraging pressure from below. It is proving a far more effective strategy, but one with the ever-present danger that it will not stop with the *nomenklatura*.

Ever since the 19th Communist Party conference in June

1988, it has been clear that Mr Gorbachev saw the need to remove the party from executive power. Whether he actually saw the need to break it completely is less clear.

"I'm not sure there was such a deep strategy," Mr Shostakovsky says. "The party was undergoing a euphoria of hope - hope for radical changes in the party itself." It was the disappointment of that hope which led to the creation of alternative "horizontal" structures within the Party - party clubs, direct links between primary party organisations, outside the full-time apparatus, which in turn has turned into the Democratic Platform. Many see that organisation as the nucleus of a future Social Democratic Party, divorced from the CPSU.

Mr Gorbachev himself only felt confident enough to tackle the party bureaucracy head on in February - after the wind of change had swept away the

communist leaders across eastern Europe, and demonstrators threatened to do the same in the Soviet provinces. Yet what he has done is potentially devastating.

The decision of the central committee - against all its conservative instincts - to scrap Article Six of the constitution, enshrining the party monopoly of power, is the most important symbolic gesture. It frees not only alternative political movements to act openly as opposition forces, it also liberates dissidents in the party to think realistically about a split.

The simultaneous decision to establish an executive presidency is the one with the most dramatic practical consequences, for it frees Mr Gorbachev himself, and therefore the Soviet government, from real party control. The Politburo will exist no more, and he can choose his own cabinet instead - presumably without conser-

vatives like Mr Yegor Ligachev.

So will the party survive, or will it split? It is far more likely that the radicals will break away than the conservatives. The latter are bound by blind party loyalty, until the bitter end. The former are desperate to distance themselves from the past.

For Mr Shostakovsky, the key will be the party's ability to transform its inner party structures, and internal democracy. That means scrapping democratic centralism - the dictatorship of the leadership - and most of the rigid party cell system. It means scrapping any privileged links with the Red Army and the KGB, the still- feared State Security Committee. And it even means positively encouraging the establishment of rival parties - by sharing party buildings with them, for example.

That is the programme the Democratic Platform is promoting, and Mr Shostakovsky does not seem to see much room for compromise.

"I think that if this programme is too long drawn out, there may not be a 29th party congress," he said.

Quentin Peel

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POLITICS

SOVIET UNION 4

John Lloyd examines how the unity of the Soviet state is being torn apart by ethnic nationalism

A melting pot rapidly coming to the boil

"Ethnic sentiment and cohesion are the quickest catalysts of effective new association. Nationalism steps into the space vacated by ideology."

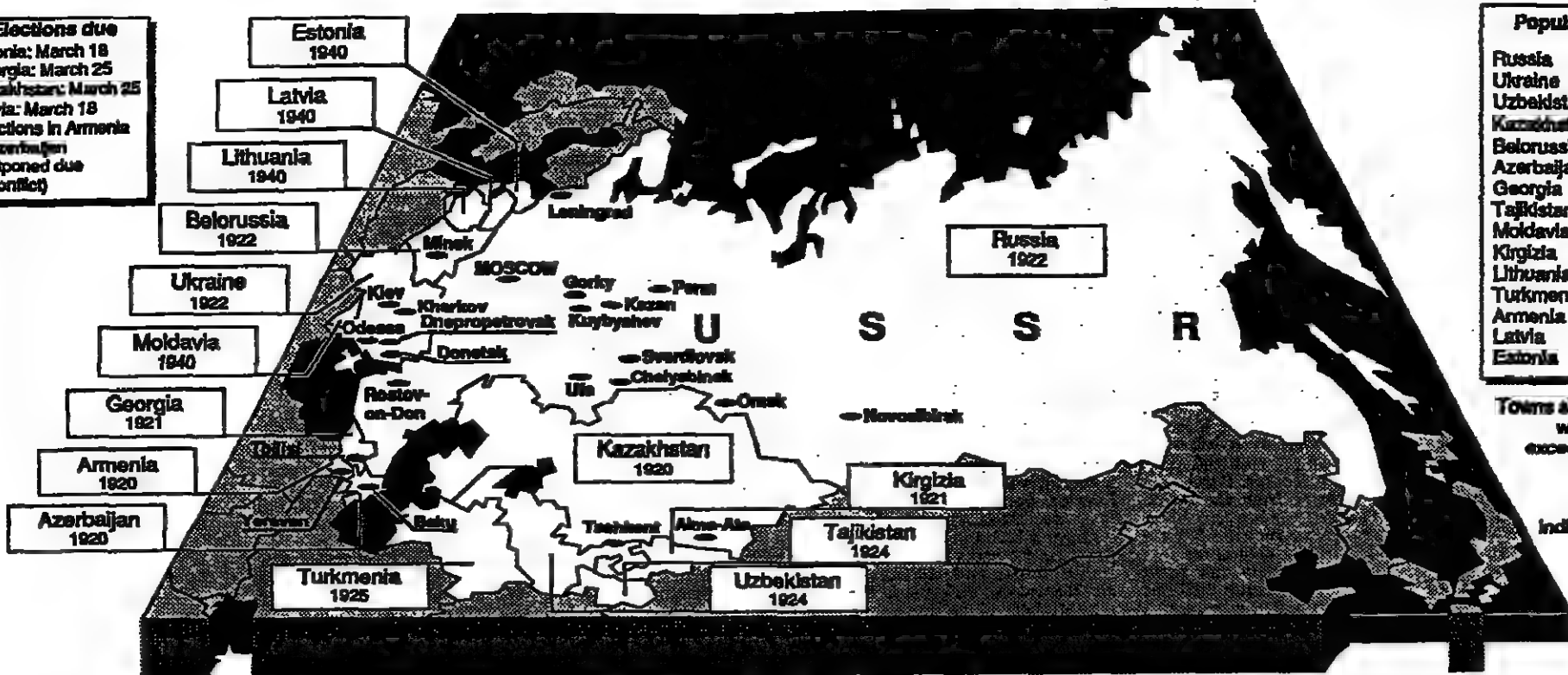
Ernest Gellner, Professor of Social Anthropology, Cambridge University, September 1989

IT IS impossible to describe the turmoil in the Soviet republics and among its nationalities in other than dramatic terms. In the past three years - popular fronts timorously began in 1987 - the unshakable unity of the Soviet state, the project of creating *homo sovieticus*, the central grip by Party and ministries on the economies and societies of 15 republics and 100 ethnic groups have been weakened to the point where these concepts and powers can no longer either be invoked or used, except in extremes - as when Azeris and Armenians kill each other.

Consider: ■ The Baltic states of Estonia and Lithuania have already, in effect, declared themselves independent by renouncing the "agreements" which incorporated them in the Soviet Union 50 years ago; the third, Latvia, is likely to follow. Their nationalist leaders - they are very often communists, indeed, in Lithuania, the communist leadership is nationalist - speak now not about greater autonomy, a loosening of the central plan, a greater cultural diversity, but about Soviet troop withdrawals, separate currencies and a Baltic federation with the Scandinavian countries, Poland and (a united) Germany. The multi-party system is an established fact in all three. Indeed, these parties will have gone to the polls before any of their fellow parties in the East European countries, with the partial exception of Poland.

■ Of the three Transcaucasian republics, two - Azerbaijan and Georgia - have in the past 12 months seen blood shed in their capital by Soviet troops. This has vastly increased the standing of the nationalist movement, split and faction ridden as it is in both republics. The tragic Armenians perhaps still need the Soviet guarantee of their borders as much as ever. But there, too, the clamour for the return of Nagorno Karabakh from Azerbaijan control after 70 years

Elections due
Estonia: March 18
Georgia: March 25
Yakutsk: March 25
Latvia: March 18
(elections in Armenia & Azerbaijan postponed due to conflict)



Population 1989	Million
Russia	147.4
Ukraine	51.7
Uzbekistan	19.9
Kazakhstan	16.5
Belorussia	10.2
Azerbaijan	7.0
Georgia	5.4
Tajikistan	5.1
Moldavia	4.3
Kirgizia	4.3
Lithuania	3.7
Turkmenia	3.5
Armenia	3.3
Latvia	2.7
Estonia	1.5

Towns shown are those with a population exceeding 1 million.

Dates in boxes indicate the year in which republic joined union.

Russians: Russian 62.6; Tatar 3.6; Ukrainian 2.7; Chechen 1.2; 4 more than 100 other ethnicities.
Armenians: Armenian 89.7; Azeri 5.5; Russian 2.3; Kurd 1.7%.
Azerbaijanis: Azeri 78.1; Russian 7.3; Armenian 7.3.
Belorussians: Belorussian 79.4; Russian 11.9; Polish 4.2; Ukrainian 2.4; Jewish 1.4.
Estonians: Estonian 64.7; Russian 27.9; Ukrainian 2.5; Belorussian 1.6; Finnish 1.2.
Georgians: Georgian 68.9; Armenian 6.0; Russian 7.4; Azeri 5.1; Ossetian 3.3; Abkhazian 1.7.

Ethnic breakdown (%)
Kazakhstan: Russian 40.8; Kazakh 36.0; Ukrainian 6.1; Tatar 2.1.
Kirgizians: Kirgiz 40.7; Russian 22.0; Uzbek 10.3; Ukrainian 2.8; Tatar 1.7.
Latvians: Latvian 53.7; Russian 22.6; Belorussian 4.5; Polish 2.5; Ukrainian 2.7.
Lithuanians: Lithuanian 60.1; Russian 8.6; Polish 7.7; Belorussian 1.5.
Moldavians: Moldavian 63.9; Ukrainian 14.2; Russian 12.9; Gagauz 3.5; Jewish 2.0; Bulgarian 2.0.
Tajiks: Tajik 68.9; Uzbek 22.9; Russian 10.4; Tatar 2.1.

Turkmenians: Turkmen 88.4; Russian 12.8; Uzbek 6.5; Kazakh 2.9.
Ukrainians: Ukrainian 73.6; Russian 27.1; Jewish 1.8.
Belorussians: Belorussian 68.7; Moldavian 0.6; Polish 0.5.
Uzbekistan: Uzbek 68.7; Russian 10.8; Tatar 4.2; Kazakh 4.0; Tajik 3.9; Kara-Kalpak 1.9.

keeps their nationalist ball rolling while popular sentiment seizes on the inefficiency of the relief efforts for the survivors of the Armenian earthquake 15 months ago, and of the inability of the central power to stop Azeri massacres of Armenians.

■ Central Asian nationalism is beginning to show itself in the Azeri and Tajik riots of January and February, and also in the relatively quiescent republics of Kazakhstan, Uzbekistan, Kirgizia and Turkmenia. These are poor, rural republics. They have high rates of unemployment, and Communist parties which have lagged in democratising either themselves or the society. Now, their intelligent

demands an end to stagnation and the creation of distinctive identities. Less pacifically, agitation against Armenian refugees has been reported outside of Azerbaijan and Tajikistan and there are indications of a gathering anti-communist, perhaps Moslem-fundamentalist, movement.

■ In the Slav nations of Belorussia, Russia and Ukraine - making up more than 70 per cent of the Soviet population - also but powerful movements are struggling to find expression. "Nationalism," says Mr Ivan Drach, leader of the Brkh (popular front) movement of the Ukraine, "is the euphoria of the last part of the 20th century. We are speaking of an

independent sovereign personality in an independent Ukraine." His movement's young economists say the Ukraine, with its granary, could find a richer place on the world market than it currently commands on the Soviet one.

Russian nationalism is often assumed to be the most powerful of all, not just because it is that of the dominant nation but also because it has such powerful, pre-revolutionary roots - in the Orthodox Church, in the Russian imperial tradition, in the peasant culture and in that side of the Russian spirit which has been for centuries anti-western.

On one extreme, much highlighted by western and Soviet media, is Penryn ("Memory"). On the streets it is capable of violence and is deeply anti-Semitic. Its leader, Mr Dmitri Vasilev, receives visitors in a vast flat hung with icons and Tzarobilia, wearing a military shirt with Tzarist emblems while protesting his willingness to fill a reconstituted Romanov - Vasilev - throne. Their fledgling stormtroopers may not be numerous but there is a wide body of opinion which thinks Russia has been suppressed and pillaged for decades, and that the process goes on still.

Mr Stanislav Knyazev, editor of Nash Sovremennik, an increasingly popular journal of Russian culture and politics,

says: "We got Marxian from the West, and that has been a catastrophe. We want to develop in a Russian way. If other republics want to leave - let them. But they will find that Russia has for centuries given them everything - its best people, its riches, its protection. This was not an empire like the British or the French."

Other Russians are not so insouciant about loss of empire. Last month, a group of Congress deputies formed a "Unity" association, with ethnic Russian deputies in the fore, in order to "counter Russophobia" and maintain order.

It is hard to know how much

of a constituency could be created in the awakened public mood for de-imperialisation. Russians have been used to moving about the expanding imperial area for centuries, in a way which the citizens of other imperial powers - even those which were contiguous, like the Turkish and Austro-Hungarian, rather than far-flung, such as the British and French - did not.

There are 167m Russians in the other republics, and 25.2m citizens of other republics in Russia. Latvia is only just over half Latvian; Kazakhstan is only one third Kazakh.

The legislators will try to find a middle way. Some five bills on the nationalities issue

appear before the Supreme Soviet in the current session, thrashed out by a drafting commission under Mr Georg Tarasovich, a former President of Belorussia.

The most salient bill, that which provides a right of departure from the union, allows secession by referendum on a turnout of 75 per cent. The Supreme Soviet must ratify that, but a large vote in favour will, in practice, be impossible to override. Other bills allow greater economic autonomy and extend language and citizen rights. Mr Tarasovich says: "I don't know how many states will use this right. Perhaps it will concentrate their minds on a subject which is now not fully thought out."

This may be so. Mr William Smirnov, director of the political studies department of the prestigious Institute of State and Law in Moscow, says: "Our society avoided disintegration in the past because it was held together by fear. Now, at this stage, everyone wants to find something negative to say about the centre. But in two or three years time, when the constitutional changes take root, it may be quite different. Even in the Baltics, they are beginning to realise that, economically, it will be difficult to disentangle themselves. Indeed, the Central Asian republics may be harder to keep. These societies are really quite different from the rest of the Soviet Union."

The economic ties will be the hardest to break, as the east European countries, enmeshed in a Comecon net which they hate but which also provides some (dwindling) protection from the rigours of the world market, are now realising. The Russian nationalists are right in this respect: Russia has provided and still does provide the necessary energy and raw materials for much of the rest of the Soviet Union. There is a perfectly good case to be made, by Russians, that they would be better off without many of the republics, particularly at a time when they are having to make costly concessions to keep them in the union.

But on their side, could these inefficient and sluggish economies really achieve any kind of independence? Or had they best throw in their lot with the ever receding prospect of a successful perestroika, and settle for the half loaf of autonomy? As the results emerge of the republican and local elections currently under way, the months ahead will see the start of such a reckoning.

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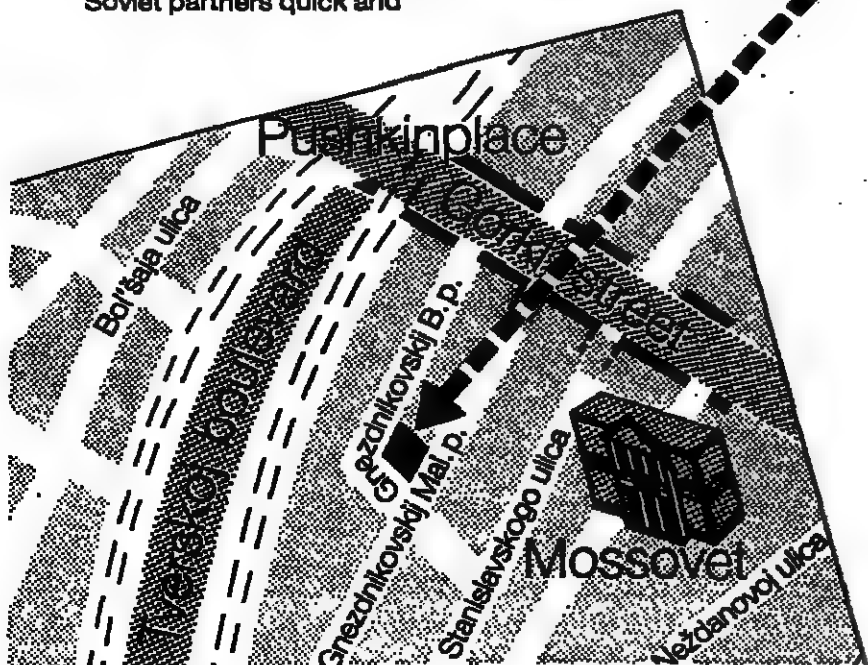
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FT writers assess the moves for greater independence in (clockwise) Estonia, Georgia, Belorussia and Kazakhstan

The elephant and the mouse

AT ONE end of Europe the 12 members of the EC are talking about economic and monetary union. At the other end, Estonia - the smallest of the Soviet Union's 15 republics - plans to introduce its own currency, the kroon, perhaps by the end of this year.

Justifying this step, Mr Rein Otason, president of Estonia's embryonic central bank, the Bank of Estonia, says that a new currency is needed to free Estonia from the currency crisis of the Soviet Union. But he also sees the plan as a way of facilitating external trade.

What Mr Otason plans is an independent currency, with the Bank of Estonia as a true central bank. A network of commercial banks is to be set up, while local branches of the main state banks will also become commercial banks within the new system.

Roubles that are held by people in Estonia in the Savings Bank of the Soviet Union on a date still to be determined will be exchanged for kroons. Cash will also be exchanged, up to a pre-specified limit.

Difficulties will arise in relation to the allocation of Soviet foreign assets and liabilities, but these can perhaps be handled since they are essentially political. More fundamental, however, is the issue of convertibility, which is inescapable because a completely inconvertible currency is senseless for a republic with a population of only 1.2m.

For his part, Mr Otason hopes for soft-currency settlement with the rest of the Soviet Union, pointing to the clause in the law on the economic independence of the Baltic republics, which states that "the rouble is to be used as the basis of inter-republican settlements".

If the kroon were convertible into the rouble (but not convertible into hard currency) and security backed by commodities as well, its price is likely to be driven up by people desperate for any haven of value. This pressure would both drain kroons from the Estonian economy and make Estonian goods uncompetitive within the Union. The Estonian authorities would need to limit holdings of the kroon in the rest of the Soviet Union, in

which task they would require the active co-operation of Moscow.

None the less, a currency enjoying such limited convertibility into the rouble, but virtually no convertibility into foreign currency, might be workable in intra-Union commerce, though the uncertainty attendant on a floating exchange rate would have to be accepted.

If the kroon were convertible into hard currency, it could not be converted into the rouble as well. Otherwise, its hard currency convertibility would be destroyed within an hour. In this case, the organisation of a decentralised system of trade, other than on the basis of settlement in hard currency, would not seem feasible.

Could Estonia hope to survive cut off from the Soviet Union by the hard currency wall? Many doubt it. But these doubts confuse self-government with self-sufficiency. As a low wage economy by European standards, Estonia could well prosper in the long term. Nevertheless, the process of adjustment would be agonising, in the absence of foreign assistance, since only 3 per cent of Estonian industrial production now goes outside the Soviet Union.

Estonia has a choice: it can either introduce a slightly better rouble - another currency that is inconvertible into foreign exchange - and so try to preserve its extensive exchange with the Soviet Union; or it can attempt to create a convertible currency, so cutting itself off from the Union.

In the short term at least, hard currency convertibility seems unrealistic. Furthermore, economic links to the Soviet Union cannot lightly be broken over night. Perhaps Moscow could be persuaded that accommodating the kroon within the rouble area is the only way of securing returns on past investments made in Estonia. Neither side will be happy with this compromise. It is easy to envisage Estonia outside in the cold in the near future, with independence, a new currency, its hopes - and little else.

Martin Wolf

THERE can be few parts of the USSR where the yearning for maximum independence from Moscow is so strong as it is in Georgia, the southern republic whose spectacular mountains, lakes and Black Sea coast have nurtured a civilisation of extraordinary depth, wealth and antiquity.

This longing for freedom once vaguely felt and inchoate, hardened into a quiet, single-minded determination after the events of last April when troops wielding poison gas canisters and sharpened shovels massacred at least 21 peaceful demonstrators.

But at the same time, there can scarcely be another Soviet region with such a fine talent for observing the formalities of subservience to the Kremlin while quietly doing its own thing.

Thus billboards in Russian and the ancient script of Georgia nestle among the pine and cypress groves on the main road into Tbilisi, urging citizens to "fulfil the decisions" of the latest Party congress with a fervour that looks naive and quaint to the visitor to Moscow.

But in Tbilisi's richer neighbourhoods, with their elaborate balustrades of wood and

April massacre hardens resolve

wrought iron, residents seem unimpressed by the debates that are raging in the Moscow legislature over whether to establish in law the right to private property.

This is because in Georgia, a flourishing market in real estate exists already, with houses and flats regularly changing hands for several million roubles apiece.

No one working with official data alone would find it easy to determine how this is possible in a city where workers in its many light industries earn no more than 12500 roubles a month, and practitioners of "skilled" professions such as engineering or medicine may well earn even less.

One reason for the amount of wealth in private hands is that in spite of collectivisation, enough of Georgia's rich orchards, vineyards and arable lands remain under private control to boost living standards in the cities to levels hard to imagine in the depressed Russian heartland.

To the indignation of many educated Georgians, one of the most powerful legends associated with their republic in the minds of other Soviet citizens is that of the fabulously rich Medvedev, friend and paymaster of corrupt officials, exploiter of shortages, trader across the Soviet Union in agricultural and other goods.

Mr Eduard Shevardnadze, the Soviet Foreign Minister who arouses ambiguous feelings among his Georgian compatriots, is credited with waging a bitter battle against some of the leading Mafia clans during his spell as party chief in Tbilisi, at considerable risk to his life.

Some local nationalists argue that the Mafia simply represent a distorted form of the leading Mafia clan that would have flourished in the absence of Soviet power, and will one day flourish under an independent Georgian government which regulates, but does not run, the economy. It has to be said that Georgia

in contrast with the Baltic states - is hard to picture as a would-be Sweden, a super-efficient paragon of rationality and transparency in its economy and public life.

The Georgian model is altogether more southern: its citizens are linked by a web of petty corruption and favouritism that entitles humblest of citizens to boast about his friends in official places. It is hard to see any form of independence changing this.

But at least in the short term, this Georgian way of public life is probably compatible with considerable skill in economic management - and certainly compatible with the forging of links, human and economic, with rest of the world, for which Georgians have a natural flair.

The Soviet-Austrian consortium which has already constructed a helicopter ski resort and is now building the first hotel in Tbilisi to meet international standards provides a spectacular example of what these links can mean in practical terms.

Given the Georgians' human and natural resources, their talent for observing form and ignoring substance, and their skill as middlemen, might they

not do well out of President Mikhail Gorbachev's offer of "economic and political independence" within the USSR, if only as a transitional stage?

Or did the April 9 massacre, which remains a touchstone issue for radical Muscovite politicians and continues to provoke public arguments in the Politburo, show that the only appropriate response to Soviet authority is to campaign, peacefully but relentlessly, for its overthrow?

These are the terms of the discussion that is going on among ordinary Georgian citizens, and between the two sides in Georgia's semi-public debate: this pits the so-called "informal" groups - led by veteran dissidents and former political prisoners - against liberal members of the dwindling local Communist Party and the Popular Front.

Elections to the local Supreme Soviet on March 25 will provide an important test of the relative strength of the two sides: the "liberal" communists and their allies are contesting for seats, while the informal groups are calling for a boycott.

The informal movement is weakened by its lack of access to printing presses and the

state media; and also by the cool relations between the young leaders of the National Democratic Party and Mr Zviad Gamsakhurdia, head of the Helsinki Union and the grand old man of Georgian dissidents.

But Mr Gamsakhurdia and the NDP (which favours liberal democracy, with Orthodox Christianity as the state religion) agree in asserting that full, early independence is the only issue worth discussing.

Ms Irina Sarishvili, press secretary of the NDP and wife of its president Mr Giorgi Chanturia, said shortly after the April 9 massacre that she believed in Georgian independence in the same desperate way that a mother believes her sick child will survive, whatever the doctors say.

Ten months and many street demonstrations later she is equally determined and less pessimistic: "the child's health is somewhat better" she believes.

Henry Cleary

Slowly rumbling

IF ANY individual republic gives an idea of the vastness of the Soviet Union it is Kazakhstan. With a land area five times that of France, this huge territory straddles the emptiness of Central Asia from above the Gulf to New Delhi. North-south, it stretches from the Siberian steppes to the foothills of the Himalayas.

It is a republic at once so deserted that it was chosen for the Semipalatinsk underground nuclear testing ground, and so colourful that Alma Ata, the state capital, ranks as one of the Soviet Union's most spectacular cities, nestling against a panorama of jagged snow-capped peaks.

Kazakhstan is not a republic that has hit the headlines with stories of nationalist unrest or independent urges. It is too distant for that: there are barely 100 ethnic nationalists with the Kazakhs themselves accounting for barely 40 per cent. But Kazakhstan has been rumbling none the less.

The focus has been the republic's huge natural wealth: coal, minerals, oil and agriculture all of them developed on a grand scale through the Soviet central planning system.

Local resentment at what is seen as the plundering of the republic by its Russian neighbours has been mounting. The temperature increased last year with the replacement of the (Russian) party secretary by a bright and outspoken Kazakh economist, Mr Nursultan Nazarbaev. Although viewed very much as a Gorbachev man, he has called for greater local economic autonomy for the Kazakh republic.

Mr Nazarbaev has been careful to temper these calls with assertions that Kazakhstan intends to remain in the Union. But he has struck a clear chord for the republic's 15m people whose frustration with food shortages and often appalling living conditions have split over into strikes and riots.

"We produce wool which we sell to the Russian republic for R600 a kilo, and they turn it into a suit and sell it for R2000," says Mr Pevter Ignatov, the editor of the local party newspaper, Kazakhstanskaya Pravda. "That's what

makes people cross."

To the extent that there is nationalism in Kazakhstan, it found its strongest expression last year in a new law which made Kazakh the official state language. But implementation has had to be phased in over several decades because of shortages of Kazakh teachers.

There is also a strong local environmental movement, which has political overtones, and has focused particularly on the desecration of the Aral Sea.

But perhaps the most astonishing sign of popular feeling to have emerged from Kazakhstan is the so-called Nevada Movement. This is an alliance against nuclear testing focused on Semipalatinsk whose objectives and vociferousness would have been inconceivable in pre-Gorbachev days. The movement is now supported by the republic's parliament now support the closure of Semipalatinsk. Moscow has responded that nuclear tests are vital to national security. But it has promised to heed local concerns.

David Lascell

Tide is turning

Increasingly powerful Belorussian Ecological Union, which plans to become a fully fledged party, says that more than 300,000 people should be evacuated from contaminated areas.

The union, which sprang into life last year with four mass rallies in Minsk, wants the republic's top priority, according to Professor Yevgeni Petrayev, its vice president. The republic's supreme soviet has adopted a six-year Rbel7m programme. But Professor Petrayev estimates the full cost of a proper programme would be at least \$160m.

Belorussia is one of the main manufacturing areas in the USSR. It produces a sixth of the USSR's tractors, and 80 per cent of its televisions and refrigerators are exported to the rest of the USSR and a third of all furniture and footwear.

Mr Georgi Badel, deputy chairman of the Belorussian state planning commission,

admits the republic's administration is under pressure to keep more of the consumer goods output for the republic's consumers and export less to the rest of the union.

Republican cost accounting - or self-guiding as the Belorussian authorities like to call it - is meant to address and control these growing strains in the republic's relations with the rest of the union.

Mr Badel believes more radical economic policies will develop. Regional cost accounting is likely to mean Belorussian enterprises will have complete flexibility over pay and new taxes, for instance on pollution, may be introduced.

Professor Petrayev says regional cost accounting should lead to a more active republican approach to the environment and industrial policy.

Mr Yevgeni Onegin, director of Planar, a Minsk machine tool plant, voiced the main concern of business: "This will just be a transfer of ministries from Moscow to Minsk, regional planning and control rather than central planning and control."

Charles Leadbeater



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FOREIGN AFFAIRS

SOVIET UNION 6

Ian Davidson examines Mr Gorbachev's efforts to realign the basis of East-West relations

From confrontation to partnership

BY COMMON consent, the most remarkable of all the achievements of the wave of reforms introduced by President Mikhail Gorbachev during the past five years lie in the field of foreign affairs. His pressure for far-reaching nuclear and conventional arms reductions is being rewarded by rapid progress in the Geneva and Vienna negotiations, while in the eyes of the rest of the world his diplomacy of compromise and sweet reason is transforming the reputation and influence of the Soviet Union out of all recognition.

The Soviet Union has always been an ideological power, in which ideology and policy were inseparable, and in which the ideology took as its starting point an inevitable hostility between communism and capitalism. As a matter of principle, that has now changed. It is Mr Gorbachev's aim to shift the Soviet relationship with the West from confrontation to partnership, with the Soviet Union taking its place in the world community as a country like any other.

In reality, however, the sheer size of the Soviet Union is living proof that it has not been, and is not now, a country like any other, since it attests to a scale of geo-strategic expansion until a very recent past, which culminated in the creation of the world's last colonial empire. Many years will doubtless have to pass before the legacy, first of Tsarist autocracy, then of Stalin and the Stalinist system of government, can be effaced; and before Mr Gorbachev's apparent aim, of a stable pluralistic democracy with a technologically advanced economy, can be realised.

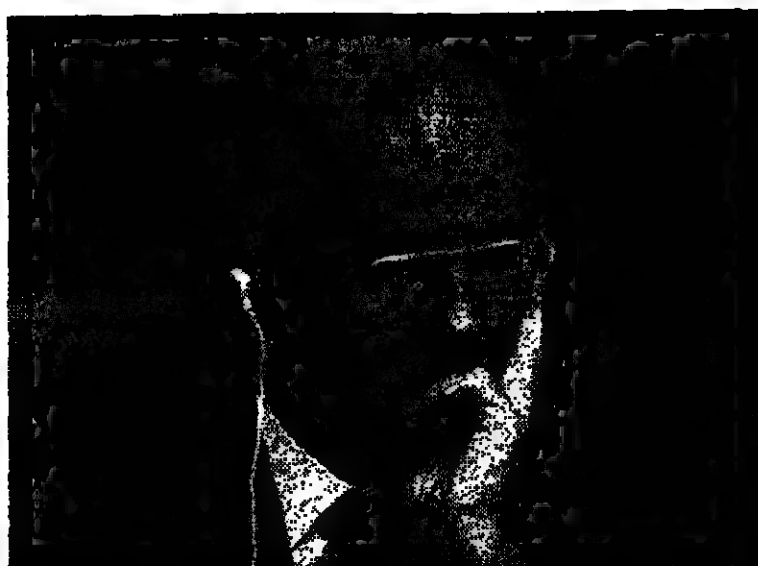
Inside the Soviet Union, the first effect of Mr Gorbachev's policy of

reconciliation with the traditional opponents of the Soviet Union, has been to sweep away the long-standing fears of nuclear war with the West, which had been so assiduously stoked up by President Ronald Reagan in the early 1980s, and just as assiduously denounced by Soviet leaders. Moreover, Mr Gorbachev's increasingly successful public relations campaign abroad helped, at least initially, to buttress his reputation at home. But the second effect of his policy of glasnost and reform has been a blow to national confidence in the virtues of the Soviet Union.

In two respects there is a direct parallel between the effects of Mr Gorbachev's reforms of domestic and foreign policy. In the first place, the old model has been discarded before any reliable replacement has been articulated: the foreign policy of superpower dialectic and ideological confrontation has been thrown out before there is a working agreement on a less highly-charged alternative foreign policy.

The second parallel is more disconcerting, and it is the widespread expression among Moscow intellectuals of disillusionment and disgust with the past. Just as it is now customary to denigrate the shortcomings of the economy and the failures of the political system, so it has become a mark of sophistication to dismiss with disdain all the previous geo-political claims of the Soviet Union in the world.

At the level of idle conversation, it is disconcertingly common to hear educated Russians mock the grotesque and overblown pretensions of their country, describing it as "a Burkina Faso with nuclear weapons". At the level of serious



Inside the Soviet Union, the first effect of Mr Gorbachev's policy of reconciliation with Moscow's traditional opponents, has been to sweep away the long-standing fears of nuclear war with the West

discussion with Soviet officials and analysts, it is equally disconcerting to hear the Soviet Union described as "a former superpower".

In purely rational terms, a profound re-evaluation of the Soviet record in the world was of course long overdue. The political and economic balance sheet of Soviet backing for the left-wing regimes in Cuba, Vietnam, North Korea, Angola, Mozambique, Libya, Syria, Ethiopia and finally Afghanistan, is universally unimpressive.

The record of Soviet policies in eastern Europe is even more dismal, considering that some of these countries are relatively less devel-

oped now than they were before the imposition of communist rule. Soviet officials appear to believe that Soviet public opinion accepts comparatively philosophically the wave of revolutions in the other east European countries, in spite of the implied "loss" of the geo-strategic gains of the Second World War. But the prospective "loss" of East Germany is an altogether more sensitive issue. Soviet officials and analysts disclaim any rational grounds for fearing that a reunited Germany could possibly constitute a real military threat in the near future to a nuclear power like the Soviet Union; but they assert that popular

opinion in the Soviet Union is still allergic to the spectre of German militarism, and is still not reconciled to German reunification, because it was the division of Germany which was to compensate the Soviet Union for the loss of 20m dead in the struggle with the Nazi regime, and to insure against another such war.

The ordinary Soviet citizens may previously have felt compensated for the hardship of daily life, by the knowledge that the Soviet Union had played a leading and heroic role in the defeat of Nazi Germany and pride that it had since become a nuclear superpower.

The consequence of Mr Gorbachev's new foreign policy, with its search for a broadly-based reconciliation with the West, is that the terms of the Soviet Union's external relations have been radically altered in at least three important ways.

First, the relationship between the superpowers has become a less dominating feature of the international scene. In the pre-Gorbachev era, when conditions of the East-West relationship oscillated between confrontation and wary détente, the axis of the relationship tended to pass through the two opposing alliances, and even more through the two opposing superpowers: the alliances were compelled to unite behind their leaders, and their leaders became the protagonists for the two sides. In the new era of declining perceptions of military threat, in contrast, the alliances have ceased to be the central factor in the East-West relationship, and the essential dialogue does not pass exclusively between the superpowers.

The second innovation, by the same token, is that nuclear weapons have become a less important currency in the East-West relationship during the Gorbachev era. In the past, because of the underlying assumptions of their military confrontation, the highs and the lows of the US-Soviet relationship were essentially defined in terms of nuclear weapons.

One of the dominant characteristics of the Gorbachev era, is that a far-reaching reduction in East-West tension has been accompanied, by spectacular progress towards the first-ever deep cuts in nuclear weapons. Paradoxically, however, nuclear weapons are becoming less central to the East-West relationship, because the relationship is itself becoming less confrontational and less military.

Before the end of this year, the two superpowers should have concluded a Start treaty which will cut strategic nuclear arsenals by a notional 50 per cent. The military significance of such a cut will be marginal, considering the enormous size of the arsenals which they will still retain; but most of the political significance will have been achieved early on, in the confidence-building expectation of such a deal.

Conversely, nuclear weapons will be a less dominant item on the agenda, since the agenda itself has been enormously enlarged, by the choice of the Soviets, who have deliberately sought to expand it to include many previously taboo subjects, including human rights. Moreover, even a very large reduction in strategic nuclear weapons will be far less significant in security terms

for Europe, than the prospective Vienna agreement, which will eliminate Soviet superiority in conventional forces in such conditions of verifiability as virtually to eliminate the danger of surprise attack.

The third innovation, is that the revolutions in eastern Europe have rewritten the Soviet Union's foreign policy priorities, on a scale and at a speed that no one could have imagined even as recently as a year ago. Whether or not this was Mr Gorbachev's intention, it seems unlikely that changes precipitated by perestroika and glasnost in eastern Europe, have reopened all the long-suppressed questions of Europe's political geography, and have put in doubt many of the geo-strategic assumptions underpinning the Soviet Union's status as a superpower.

It is a safe bet, therefore, that the future of Europe, East and West, will dominate the Soviet Union's foreign policy preoccupations for many years to come.

The main question which seems to be unresolved in Moscow, is what sort of strategic security system to aim for. Three main ideas appear to crop up in Moscow talk: a resuscitation of the old dream of collective and demilitarised security in Europe; some form of condominium derived from the Four Powers Agreements; or a modified system of strategic balance between East and West.

The appeal of this strategic balance, in which Germany is contained within the European Community and Nato, but security is guaranteed as much through verified disarmament as through armaments, is that it may be the option which is attainable within the foreseeable future.

At all events, one of the striking features of Moscow talk is the readiness of some foreign policy specialists to recognise that the European Community has political as well as economic strengths which may well prove to be a factor of stability in an unstable world.

EASTERN EUROPE

Trouble in the backyard

IN THE past five years the Soviet Foreign Ministry has enhanced its reputation: it was seen to be promoting peace and friendship abroad, and this brought prestige to the Soviet Union. It is less popular now, but that is largely because of eastern Europe.

"There are people in this ministry," says Mr Alexei Nekiporov, head of the East European section in the Foreign Ministry, "who are concerned with security and military matters, who would see what has happened as the destruction of the Warsaw Pact, or at least its diminution."

This is not just confined to the elite. Mr Andrei Grachov, deputy head of the International Department at the Communist Party Central Committee, says that "it is difficult now for Mr Eduard Shevardnadze, the Foreign Minister, to persuade people that all is well in eastern Europe. They say we have lost what we gained in the war, especially when it comes to East Germany."

It is here, in his own back garden, where President Mikhail Gorbachev faces a range of foreign policy issues which his harder line opponents will insist become part of the stuff of domestic politics, on the theme of "the USSR's (declining) place in the world".

Already, in a speech to the Central Committee plenum a month ago, Mr Yur Ligachev warned of a "confrontation with vast economic and military potential" that was "looming on the horizon". Huge efforts had to be made to cut short any attempts to revise the post-war borders, and "prevent a post-war Munich," he added. If Mr Gorbachev is to avoid being cast as a Soviet Chamberlain, he must — in Mr Grachov's words — "get confirmation of the fact that he is not selling out the security of his country."

In short, he needs US and western European assistance in not looking like a patsy — a line which gives some vindication to the view taken by Mrs Margaret Thatcher, the UK Prime Minister, who argues that too rapid endorsement of a united Germany would put too much pressure on the Soviet Union.

This is the view that sees eastern Europe as a threat, but there is also a view that sees it as an opportunity, or at least as an example. "If the eastern European economies, especially Poland, can attain success, then that will greatly help our reforms," says Mr Nekiporov.

In Warsaw, Dr Arthur Hajduczek, foreign policy adviser to the Polish Prime Minister, agrees. "Of course, if we fail, it will be the worse for them too," he says. Dr Yuri Kuznetsov, head of a section in the Institute of Economics of the World Socialist System, divides the east European countries into "a group which will go towards the West as fast as possible, a group which might manage to achieve a democratic socialist alternative and a group which makes no economic changes but continues as before. The Soviet Union, I fear, may be in the latter."

In the responses of policy makers and analysts to the events in east European, there is evident a strain of pessimism which derives not so much from their dislike of what has happened there, but their fear of what will or will not happen in the Soviet Union.

There is, at present, little

hope that the economic reforms, stalled more or less explicitly, can work. It is thus assumed that the eastern European economies will, at best, as possible strain away from the ailing giant, now that they no longer have to protect unshakeable friendship.

But can they? It is becoming clearer, as work begins on creating institutions to sustain these new regimes, that their freedom for manoeuvre is limited. First, their fears over their borders — especially with Germany — mean that they

There are people in the Foreign Ministry who would see what has happened as the destruction of the Warsaw Pact

will continue to look to the Warsaw Pact as a guarantor of the post-war settlement, from which they all did more or less well. Second, their membership of the Council for Mutual Economic Assistance (Comecon), though now seen as something which confirms the despotic nature of their political and commercial backwardness, is still essential to avoid their more rapid collapse since there are no other markets in which they can compete effectively.

Dr Alexander Nekiporov is deputy director of the Institute of Economics of the World Socialist System. Like his colleague, Dr Kuznetsov, he is a pessimist on the present prospects of perestroika — but is harshly realistic about Comecon. For it

the events of eastern Europe are a threat, and their experiments a hope, then the dissolution of Comecon is a waterfall.

Mr Nekiporov estimates that estimates have been made which show that the Soviet Union would benefit by some \$10bn from the transfer of Comecon trade into hard currency — a measure the Comecon congress in Sofia in January agreed would proceed in stages. The Soviet Union will be able to sell its raw materials on the world market and also shop on that market for capital and other goods of better quality, but perhaps at no higher price than Comecon can provide.

"Our enterprises already have \$1bn in hard currency they can spend freely, and little of it is spent in Comecon countries," says Mr Nekiporov. "So you see what effect liberalising trade entirely would have."

This is dramatic — the more so since the more advanced the country, the more it depends on the Soviet market. Forty per cent of all East German production and 70 per cent of all Czechoslovak engineering exports are destined for the USSR. Figures first produced for the US-based PlanEcon group, and verified by the Institute of Economics of the World Socialist System, show further that between 1970-84, each Soviet citizen paid \$4,000 in East Germany in subsidy to its industry — a index of how far the prices of East German and other Comecon products exceeded world prices and of how much East German living standards depended on the

poor Soviet consumer. "For us, economically, Comecon was a loss," says Mr Nekiporov. "But politically it was a gain." It is this perception on the part of some of the Soviet governing class — shared with the new east European governments — that Soviet domination since the war has twisted the economies and societies to such an extent that some reparation must be made which is now gaining ground.

"I don't mean reparation in the sense of payments," says Mr Nekiporov, "but in the sense of letting them down gradually. This will have to be negotiated. But we will agree a gradual phasing in of hard currency, and in that time we hope all of us will make something of the transition to the world economy."

The Soviet Union and east European have passed from a stage of being yoked together in formal fraternity to one where the resentments and hostilities now enjoy free play — the more so since the ruling elites in at least Poland and Czechoslovakia have been against the Soviet system since their inception as opposition movements.

Yet even as these countries to be anti-Soviet demonstrations, and as the newly-turned democratic communists seek to distance themselves from the country they once called Motherland, so the sober thought strikes these countries' leaders: "We can't leave Motherland yet, even when she will no longer stop us from going."

John Lloyd

ASIA

Frosty relations begin to thaw

enki, director of the Institute of Far Eastern Studies, which advises the government on Asian affairs. "We are not going to enforce our views on them."

China and the Soviet Union have not become allies, nor is this likely. They continue to disagree on many regional and bilateral issues. Yet since the Gorbachev visit, the two sides have exchanged more than 100 delegations at the vice ministerial or higher level. Several previously off-limits areas, such as Communist Youth League or direct Party-to-Party relations, have resumed.

Regional, cross-border, economic exchanges have mushroomed, particularly between the Soviet central Asian republics and the Chinese province of Xinjiang, and between Manchuria and the Soviet Far East. There are now 24 operating joint ventures ranging from a vacuum bottle plant at Alma Ata to a joint venture restaurant, the Harbin, in Khabarovsk, with many more under discussion.

Some 10,000 Chinese labourers (15,000 according to Chinese statistics) are currently working inside the Soviet Union on various construction projects. Migrant Chinese farm workers are active in the Novosibirsk area in Western Siberia.

None the less the economic relationship is an awkward one, because of a lack of convertible currency, and the two-way trade last year was only \$1.5bn, roughly 10 per cent more than in 1988.

Chinese labourers are paid in roubles, and must take their pay home in Soviet commodities — refrigerators or televisions — that are often in short supply in the Soviet Union itself.

Local trade is constrained by the need for barter, with values negotiated in terms of Swiss francs. Tourism is also growing on a strictly matched basis in which equal sized groups pass the border on subsequent days, each side paying for the other's expenses in local currency. The two sides will this year consider whether to move the trade to a hard currency basis, although there are fears this could lead to a drop in trade volumes.

Telecommunications links between the two countries are terrible, and transportation links poor, although this is being steadily improved.

Flights have begun between Khabarovsk and Harbin, and direct flights between Moscow and Shanghai will start this year. Consulates are to be opened in Khabarovsk and Shenyang. A rail link between Urumqi and Alma Ata is sched-

uled to be opened in 1992, built largely with Soviet finance. More steam routes along the Amur river will link Soviet and Chinese cities.

Visa procedures have been simplified, with visas eliminated for business travel. Eight new border-crossing points are being opened up, to add to the existing 15.

Perhaps most impressive of all, delegations at the "expert level, consisting of five military officers and five diplomats, sat down for the first time in Moscow last November, to discuss how to build confidence along the border. The discussions continued in Peking in mid-February.

Soviet diplomats believe the improved atmosphere had led the way towards a possible settlement of the Cambodia conflict, in which all parties are now actively meeting. China and the Soviet Union back opposite sides of the conflict but have together played a key role in fostering possible UN involvement in a settlement.

With Soviet troops stationed in Cam Bakh Bay, Vietnam, pulling out, the path has been cleared for further improvements in ties with South-east Asian nations, where Mr Nikolai Rydkov, the Soviet Prime Minister, has recently made a tour.

The Soviets have also been

stepping up trade ties with South Korea. Although politically they stand firmly behind their North Korean ally, they would plainly like to see more dialogue and further easing of tension on the peninsula.

This leaves Japan as the outstanding deadlock. Mr Rydkov's recent suggestion that Tokyo and Moscow shelve their territorial dispute in the interests of improving political and economic relations was promptly rejected by the Japanese. It is clear that no Japanese government can afford politically to give up claim to the four Kuril Islands which the Soviet troops occupied after the Second World War.

Officially the Soviet stance has not budged — that there is no territorial dispute to be discussed. However, Mr Gennadi Gerasimov, the Soviet foreign ministry spokesman, recently created an odd twist to this issue when he said that some Soviets were arguing in favour of giving back these small islands (which have a strategic importance because they span ice-free winter sea lanes to the naval port of Vladivostok).

Should that happen Soviet relations in Asia, which have been a source of frustration for many years, will have been transformed completely.

Steven Butler

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SOVIET UNION 7

FOREIGN AFFAIRS

DISARMAMENT

Farewell to arms

EVER SINCE President Mikhail Gorbachev came to power five years ago, his "new political thinking" in foreign policy has been driven by the triple objective of détente, de-ideologisation and disarmament. The achievements so far are more profound than those of earlier periods of détente, and look like having far more durable results.

Under all previous Soviet leaders, superpower diplomacy had taken the form of an absolutely predictable action-reaction dance: the US would make proposals, and the Soviet Union would react, often negatively. Under the Gorbachev regime, that pattern has been reversed.

After the East-West freeze induced by the Euro-missile crisis of 1983, nuclear arms control talks resumed in 1985, coincidentally the day after Mr Gorbachev came to power. At that time the US was proposing a one-third cut in strategic nuclear weapons, and the Soviet Union was responding more modestly with a proposal for a 25 per cent cut. But at his first summit meeting with US President Ronald Reagan in Geneva that autumn, Mr Gorbachev was already raising the stakes by calling for a nominal

50 per cent reduction, which has since become the official target for the Strategic Arms Reduction Talks in Geneva.

And so it has continued since then. At the next US-Soviet summit meeting in Reykjavik the following year, Mr Gorbachev almost succeeded in sweeping Mr Reagan off his feet, with an apparent proposal for the elimination of all nuclear ballistic missiles.

In December 1987, the Soviet

The achievements so far are more profound than those of earlier periods of détente, and look like having far more durable results

leadership concluded what its predecessors had adamantly refused, an agreement to eliminate all US and Soviet Intermediate Range Missiles (IRMs) in Europe. And there are good prospects that the Start negotiations will produce big cuts in the long-range nuclear weapons of the superpowers.

In purely military terms, this Start agreement will not make much difference, since both sides will continue to have colossal overkill in strategic nuclear weapons. In contrast, the conventional military balance between East and West is

likely to be fundamentally altered by the negotiations on Conventional Forces in Europe (CFE) now under way in Vienna. With luck, these CFE talks should produce a treaty for endorsement at this year's Helsinki summit, which will bring about, for the first time in 40 years, a true military equilibrium in Europe.

In addition, both Moscow and Washington have been hurrying ahead of the Vienna

process. In December 1988, at the United Nations, Mr Gorbachev announced a unilateral reduction in the Soviet Union's armed forces of 500,000 men. In 1989 President Bush responded with two successive proposals to reduce US and Soviet troop levels in Central Europe.

The underlying message of these successive negotiating moves has by now become virtually impossible to deny: the Soviet Union of Mr Gorbachev believes it is possible to abandon a foreign policy based primarily on the assumption of conflict and on the threat of

military force. What is less easy to fathom, is where this leads in strategic terms.

Moscow regularly insists on the need to maintain the strategic balance in Europe, and the equilibrium between Nato and the Warsaw Pact. Yet at the same time, the Soviet leadership repeatedly appeals to the quite different idea, of some kind of pan-European security order, no doubt derived from the provisions of the Helsinki process, under the evocative name of the Common European Home.

Earlier this year, Moscow reiterated its intention to withdraw all its troops from eastern Europe by 1995-96, and said that it expected to negotiate an even earlier timetable for withdrawal from Czechoslovakia and Hungary. Such a withdrawal is no doubt a rational response to the revolutions in eastern Europe, which have undermined the credibility of the Warsaw Pact; but the only chance for salvaging the Pact lies in military withdrawal, and even then its main role may be political dialogue between the countries of eastern Europe and the Soviet Union.

These unanswered questions should not obscure the most important fact, that Mr Gorbachev is presiding over the end of a long period of Cold War, and the beginning of a new period of effective arms control and arms reduction.

Ian Davidson

EUROPEAN COMMUNITY

A model for Moscow

"EUROPE is a new centre of power," said Mr Alexei Arbatov, one of the Soviet Union's leading foreign policy experts. "Western Europe will become more important in Nato, since some US withdrawal is inevitable; it may even become the major partner in Nato."

"The European Community," he went on, "has a very strong political role to play, because economic factors are now becoming predominant. I would not be surprised if there were a supranational government in western Europe 10 years after the Single Market of 1992; or even in the whole of Europe, excluding the Soviet Union, nor a threat to the Soviet Union, unless it becomes the core of a new military alliance."

Sentiments like these are a testimony to the dramatic effects of President Mikhail Gorbachev's policy of perestroika on foreign policy perceptions in the Soviet Union. Until recently, the EC and other manifestations of European integration were officially denigrated in Moscow as a hostile manifestation of the Cold War. A less caricatural picture of

the movement towards economic and political integration in western Europe has at various times occasionally broken through the official line in the Soviet Union in the past 40 years. But Soviet analysts did not systematically start to take a more realistic assessment, until Mr Gorbachev introduced his "new political thinking" on foreign policy, uncontaminated by the ideology of communism and the Cold War.

can be beneficial for large parts of the population. Second, the new attempt to see the world in inter-dependent terms, means that the Community can become a partner rather than an enemy. Third, the necessity of making a more realistic assessment of the Soviet Union's own economic failures, increases the incentive for learning from others, including the EC.

Thus Mr Stanislav Kon-

much as of its economic significance. "Since 1985," says Mr Sergei Karaganov of the Europe Institute in Moscow, "our analysts have said we should get rid of 'America-firstism' in our foreign policy priorities. Now we have equal priority to America and to Europe. Western Europe's influence on US policy has mostly been positive. A stronger EC will be a factor for stability in Europe, though Germany may have a dominating influence on it."

The shift in Soviet attitudes towards European integration has been followed by closer diplomatic links. Last year the Soviet Union, like Comecon, signed a framework trade agreement with the Community; and the Soviet Union also secured Special Guest Status at the parliamentary assembly of the 23-nation Council of Europe, though not to vote. The most interesting feature of the new thinking is that some Soviet analysts are starting to look to the EC as a possible model, not just for revitalising economic and political relationships within Comecon, but even for reform inside the Soviet Union.

Ian Davidson

Officials and academics in Moscow appear to see more good in the EC than does Mrs Margaret Thatcher

Today in Moscow it is common to hear officials and academics express positive views of the EC; some of them even appear to see more good in the EC than does Mrs Margaret Thatcher.

Professor Vladimir Barnovsky, of the DMEMO Institute, believes there are three main strands in the Soviet reassessment of the EC. First, there is a growing recognition that economic integration is not an offensive of the West European monopolies against the working class, but a process of social accommodation which

drashev a leading commentator at Izvestia: "Many people now see that the western European countries tried to solve, and in fact have solved, very important economic problems, step by step, with great efforts. Our efforts with other Socialist countries are not at all successful. But we will find it easier to build new, more effective forms of economic relations with our neighbours, if we build constructive relations with western countries."

This fresh look at the nature of the EC is leading to a sharp reassessment of its political as

MILITARY

The bitter climate of cuts

A SENSE of disorientation and alarm spreading among Soviet military elite. The allegiance of Soviet officers to the Party, to the socialist fatherland and to internationalist duties within the Warsaw Pact and further afield is ingrained in military training and values. But this world-view is fast losing its relevance, as the role of the Soviet armed forces is challenged by the collapse of military certainties.

Political upheaval in eastern Europe has paved the way for the rapid retreat of the Red Army from Czechoslovakia, Hungary and Poland. The break-up of the Warsaw Pact military apparatus is under way and a powerful united Germany looms.

The Soviet military budget is vulnerable to a climate of cuts and much of the country's conventional military strength is destined to be traded away in highly asymmetrical arms agreements with the West. Within the USSR Soviet forces

are committed to maintain central control in regions plagued by intra ethnic strife. Even the economic and technological promise of perestroika which raised the prospect of more efficient and better equipped if smaller Soviet armed forces in the future, is now overshadowed by gloomy forecasts.

Red Army commanders may reasonably conclude that the Soviet military environment in 1990 is driven by trends increasingly beyond Moscow's control. Their worries are frequently expressed in sharp debates in military circles, leading at times to polarised views.

No doubt the Soviet High Command is dismayed by the pace at which Warsaw Pact unity has collapsed. The view that the strategic gains of the USSR were won at the cost of millions of Soviet wartime dead, is still ingrained in their military thinking.

Soviet military leaders are committed in principle to pull-

ing back at least 370,000 of their forces from eastern Europe and sharply reducing their force levels west of the Urals under the draft treaty on Conventional Forces in Europe (CFE).

An overall fall in the Soviet military budget of some 14 per cent over the next couple of years has been promised including a cut of 8.5 per cent in 1990 (said to be from Rb577.3bn to Rb570.9bn) and 12.50 per cent cut in arms production. The military command can swallow these cuts in the context of East-West disarmament but so long as the economic and technological basis for the weapons systems of the future is laid, with this

goal in mind they can support perestroika and accept that more defence industries should be given over to civilian production.

Military leaders are also agitated over radical proposals that the current sprawling conscript army be transformed into a new organisation based on the principles of a professional and/or territorial force. Officers favouring such a transition believe that it would free manpower and resources for the civilian economy and help ease the current alienation between the Soviet military and civilian populations. Yet for Mr Dmitri Yezov, the Defence Minister, such a professional army would be too

costly and unable to provide a sufficient reserve for long-term military actions.

Military leaders have found the idea of creating territorial formations based on national residences especially controversial. Linked as it is to a larger nationalist agenda in the Baltic and other volatile republics. This is an explosive issue and it challenges the traditional Soviet view of the armed forces as an integrating force for various Soviet nationalities. The Soviet High Command has reluctantly yielded some ground to Baltic and Georgian demands that recruits be allowed to serve in or near their home republics in an attempt to head off growing

anti-military sentiment.

Over the past year the esteem of military service has been undermined by an upsurge in press criticism of the brutalising of recruits, drunkenness and corruption, which conveys a bleak picture of military life. Many officers find such criticism repugnant and have declared it ill-informed, unpatriotic and malevolent. This reaction reflects their deep unease about social trends under perestroika. Special attention has focused on the difficulties in socially and economically integrating the 600,000 troops to be reduced unilaterally under Mr Gorbachev's December 1988 announcement. Up to 100,000

former officers will lose this status and ready access to accommodation. This threatens to create a large pool of disaffected demobilised officers. The capacity of the economy to readily absorb such an influx of labour is uncertain.

The use of Soviet troops to quell internal ethnic and nationalist strife has dealt a damaging blow to military prestige. Moscow's decision to use regular army forces to smash into the Azerbaidzhan capital Baku in January only followed the failure of local KGB forces and Ministry of the Interior troops to regain central control in Azerbaijan, and it was undoubtedly taken with the greatest of reluctance.

The political cohesiveness of the armed forces has traditionally been entrusted to Communist Party organs, in particular the Main Political Administration (MPA) of the army and navy. But a Central Committee decision last month to abandon the principle of the leading role

of the Party forces a reappraisal of Party organisations in military units. At the least party-political training in the forces is likely to be downgraded, undercutting the MPA and its chief, General Litzhev. Finally, disillusion has gripped even senior officers as perestroika falters economically and threatens to fragment the USSR into national groups. The majority also fear over-hasty decisions spurred on by the climate of military cuts, are defensive over reform ideas issuing from military ranks and bitterly resent the role of civilian critics. Yet growing cynicism among higher military circles has not spilled over into open hostility to the political authorities.

Roy Allison

The author is a lecturer at the Centre of Russian and East European Studies, University of Birmingham

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CONSTITUTION

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Changes afoot

THE process of the creation of a law governed state is the success story of the five years of President Mikhail Gorbachev. Not just successful: breathtakingly successful, on a scale and with a speed which no one could have imagined at the beginning of his tenure of office.

The period has seen the ending of a totalitarian state and the emergence of a chaotic period in which at every level debate and struggle focus on the way in which the Soviet peoples are to be ruled. This has been violent and will be again. It could not be otherwise given the violence of the creation and consolidation of the state. But now, even the violence is usually significant of some kind of liberation, at least of expression, not that of a hopeless throw against gathering tyranny.

That, for all its brilliance, the process may yet fail is a measure of the depth of the task which the reformist leadership took on, and the size of the contradictions which they summoned up by unleashing it in the first place.

However, if reform succeeds — by which can only be meant, that it continues to stagger through crises while still proceeding in the direction of a liberalised polity and economy — it will be largely because a state of law is painfully being built.

The Gorbachev period so far has seen many of the right things destroyed, and more of the right things created. In the first category, Mr Gorbachev has wittingly or unwittingly destroyed belief in the following:

- the unity of the Soviet Union;
- the command system of production and supply;
- the leading role of the party, and with it the supreme theoretical role of Marxism-Leninism and the politicisation of everyday life.

There are signs that these new practices are becoming entrenched which bode well for a state of law. For out of the ferment in the republics is growing a care for democratic and constitutional forms, both within the areas for which they seek autonomy and independence, and to govern the relationship between them and the centre.

The elected Congress of People's Deputies and a reshaped Supreme Soviet convened for the first time 10 months ago, yet it is now part of political life and contains a plurality of opinions which are beginning to form into proto-parties. Moreover, it has confirmed — and

rejected — ministers, passed laws introducing a presumption of innocence clause in the law and scrapped the notorious catch-all charge of "slandering the Soviet system".

It has refused to ban strikes, to levy penal taxation on co-operatives, to raise tax on beer and cigarettes and it has granted economic autonomy to the Baltic republics.

Its deputies — most authoritatively, the late Dr Andrei Sakharov — have argued publicly and vehemently with Mr Gorbachev and other high state and party officials. And it has all been on television.

Its very success has directly affected the position of the

There is now a public opinion. It is feeble, intense and inexperienced and it has clearly signalled its dislike of the Party's monopoly

Communist Party. Its operation has shown that the Party's "leading role" and monopoly of power was both absurd and was being challenged with impunity throughout the country.

Thus the decision by the Central Committee plenum early last month to scrap Article Six of the constitution guaranteeing the leading role of the party (or, significantly, requesting the Supreme Soviet to amend the constitution) was the recognition of an already established fact. The Party was no longer leading: the monopoly was broken.

However, official confirmation of this has put a flip behind efforts to create a constitution, efforts towards which have been in a curious suspension over the past two years, with "conservative" and "radical" drafts circulating.

Mr William Smirnov, director of the department for political studies at the Institute of State and Law, says: "Since the plenum, discussions are becoming more urgent. The prevailing mood among legal circles is that it should be a really legal constitution — not one which mentions the kind of society and state we will have; to make it an expression of the law, not one which lays down the values of socialism and communism. It will not mean an end to law governing, but it will mean an end to the state as presently constituted."

What Mr Smirnov proposes is a logical next step to the loss of political monopoly. That is, a constitutional settlement which guarantees civil rights

and describes electoral and judicial mechanisms, but is not prescriptive as to political outcomes — a complete departure for a state in which socialism is the presumed input to and outcome of all state acts.

In that sense, the removal of Article Six of the constitution is only a first step. The deconstruction of an ideological constitution must proceed from the bottom up, engaging even with the very name of the state itself.

The current session of the Supreme Soviet and of the Congress will be critical in this instance. It must consider five draft laws on the relationship between the republics and the centre, and between republic and republic; it must finally get to a draft law on the press; it must decide on a framework for new parties and it must conclude whether or not it wishes to legalise private property. At some point, too, it must intervene to sort out the confusion over the reform of the legal system itself.

The momentum of constitutional change it has already initiated has been great. But still, as Mr Vitaly Tret'yakov, deputy editor of Moscow News, points out: "We can still revert to the days of stagnation if one man — Mr Gorbachev — is removed."

This overstates the case: it points up, however, how much is owed to reformist personalities, how slender still is the legal basis for enshrining the changes made.

There is, finally, the matter of the creation of a public opinion and a civil society which are the ultimate guarantees of any constitutional and democratic state. For if the people do not insist on democracy and the rule of law, leaders unused to either will be unlikely to provide it.

There is now a public opinion. It is feeble, intense and inexperienced and appears to be against co-operatives (and is certainly against price rises); but it has also clearly signalled its dislike of the Party's monopoly and its desire for a constitutional state in which not just the party, but the police, KGB, judiciary, enterprises and unions were subordinate to the law and able to operate independently of political and state pressures.

The larger question is how far this public opinion can be expressed at the federal level. In the end, that will determine the entire process. It will not mean an end to law governing, but it will mean an end to the state as presently constituted.

John Lloyd

MR IVAN Laptev, editor of *Izvestia*, is perhaps a better model of the senior Soviet newspaperman in the age of Gorbachev than his higher profile colleagues, such as Mr Vitaly Korotich of *Ogoniok* or Mr Yegor Yakovlev of *Moscow News*.

He has been a considerable reformist, pushing the government paper into campaigning and enquiring journalism, encouraging a talented team of columnists like Mr Alexander Bovin and Mr Melor Sterua. At every step of the way, though, he has worried — "Was I going too far ahead of my readers?"

An example. Three years ago, he wanted to campaign against the practice of erecting busts of those who had been twice awarded "Heroes of Socialist Labour." He had an article written "but I was afraid to use it, because the leadership were all for the custom and so were many workers. Now, it is widely discussed and it seems everybody is against it."

He sees two main phases in the liberalisation of the press. First, the extraordinary Central Committee plenum of April 1985, a month after President Mikhail Gorbachev came to power, at which the new programme of perestroika gave us hope.

The second moment was the publication, in the spring of 1988, of the "Nina Andreeva letter" — a letter from a Stalinist teacher, published in *Sovetskaya Rossiya* newspaper, violently critical of liberalisation and seen at the time as the herald of a new reaction.

Pravda lamely reassured the leadership line some two weeks later. Mr Laptev and his colleagues were shaken, "but we talked together and decided to continue our line as long as we could."

But he is for perestroika: and that means he is for Mr Gorbachev, in a way no western newspaper editor could afford to be for a prime minister or political leader. When, last autumn, Mr Gorbachev called in the newspaper editors and harangued them for irresponsibility, Mr Laptev thought about it, reviewed his material "and realised Gorbachev was right. So I told my colleagues that we must work more carefully."

It was at that same meeting that Mr Vladimir Starikov, editor of *Argumenty i Fakty*, a hugely popular weekly, was reported to be under threat of the sack. "Mr Gorbachev didn't actually sack him. He said: 'If I was in your place I would resign.' But he hasn't resigned."

Mr Albert Vlasov, chairman of Novosti, the press agency, is dismissive of allegations of control from above.

"We're an independent agency, we publish our own points of view." That is increasingly true; and it is

SOVIET UNION 8

PRESS

An age of enquiry

increasingly the case that these views clash, though how deep is the debate is another matter.

Mr Vlasov has seen a 30 per cent turnover in his staff in the past 18 months, as the old guard who are unable to accustom themselves to the changes leave, and new ones are recruited.

There are other inhibitions than the purely political. Mr Korotich at *Ogoniok*, nothing of his vigour seemingly yet impaired, says he cannot get the paper he needs, cannot get the printing capacity he needs ("I have to print a weekly two weeks ahead of publication!") and cannot pay the staff what they deserve.

"Our circulation has gone up from 250,000 in 1986 to 4.6m now. *Pravda's* circulation has halved. And still they pay *Pravda* journalists three times our rates." The censor, he says,

is still about — though he causes less trouble.

He, too, thinks that the press remains protected — while Mr Gorbachev remains in charge.

"After that meeting with Mr Gorbachev last year nothing happened. He showed the conservatives that he could shout at us and that was all. Perhaps it is a sign that democracy has arrived: the leader makes a fuss and nothing happens."

"We are not untouchable. Mr Gorbachev is not untouchable. But we exist in the struggle now. I feel hated, but I also feel supported. The battle will be open."

Still, most journalists feel too dependent on the figure of Mr Gorbachev for comfort. Says Mr Vitaly Tret'yakov, deputy editor of *Moscow News*: "With Mr Gorbachev gone, the whole thing could collapse. It still all comes down to him." Journalists want something

in writing, and they will probably get it in this session of the Supreme Soviet.

The Draft Law on the Press has been kicked about for at least two years, first under the conservative tutelage of Mr Victor Afanasev, the former editor of *Pravda*, and now under the more reformist oversight of Mr Georgi Shakhnazarov, a former researcher at the Institute of State and Law and now an aide to Mr Gorbachev, as well as chairman of the standing committee on the law on the press.

He believes the law should be ready to be tabled and passed this session. He is certain it is liberal, and will bear comparison with any in the world.

Only two things trouble him — "and they are matters of controversy everywhere". First, should an individual, as against a group or enterprise

or party, be allowed to start a paper?

"If we allow individuals to start them, we risk such massive powers as (William Randolph) Hearst had and (Rupert) Murdoch now has. To us they are symbols of men who command too much political influence. The international democratic movement as a whole has not found a solution to this problem. The second issue is who controls? The publisher or the journalists?"

"We believe the publisher should not have the right to censor an article — he must be given rights of influence, otherwise why bother to publish at all? He should have rights, and the editor and the journalists should also have rights, in balance. Certainly, the journalist has the right to refuse to write something against his conscience."

One consequence of the Press law might be a certain falling off of the presently very great availability of "unofficial" papers — printed by groups, proto-parties, ecological clubs and individuals with something to say all over the country.

Mr Shakhnazarov reckons there to be 2,000 of them. The new law will force them to declare their editor's name, where their financial support comes from and what their editorial line is. Some may find this requirement too restrictive, and drop out.

The relative freedom of the press has been the more remarkable since it is wholly a Party or state-owned press. The new law should permit private, or at least co-operative, ownership.

But any guarantee for its independence depends on the creation of democratic and market institutions.

John Lloyd

CONSTITUTIONAL REFORM

Foundation laid for new system

THE CENTRAL element of President Mikhail Gorbachev's "New Political Thinking" has been the creation of a rule-of-law state in the Soviet Union. Glasnost and perestroika are instruments to this end, but the real inspiration in Mr Gorbachev's policy is that law — for the first time in Soviet history — is accepted as a universal human value and not merely a means to an end.

The full implications of this view for Marxist theory have yet to be explored, for classical Marxism always has emphasised that state and law are ultimately doomed to wither away, to disappear under communism.

Be that as it may, the foundation stones are being laid for its creation. Constitutional

reform, Mr Gorbachev said, will be undertaken in stages.

The first occurred in December 1988 when the USSR constitution was amended to create a new parliamentary body — the Congress of People's Deputies of the USSR — and to introduce experimentally an election system under which multiple candidacies would be allowed. Further, a Constitutional Supervision Committee was to be formed, and the role and prestige of the courts and the legal profession were to be enhanced.

There has since been institutional progress. The parliament was formed in June 1989 and, though cumbersome with 2,250 members, seems to be emerging as an independent force even though 86 per cent of the deputies are members of the Communist Party. Its televised proceedings captivate the nation.

The introduction of a Presidency into the USSR constitution, for which the Congress of People's Deputies has been convened in extraordinary ses-

sion, is attributed to this need for expeditious resolute action.

The December 1988 constitutional amendments called for adoption of legislation protecting the independence of the judiciary. In August 1989 a law on the subject was enacted, followed in November by three further amendments on the recall and disciplining of errant judges. Republics have been given the right to introduce the jury system in selected criminal cases.

"Telephone" law has required a lot of attention in the Soviet press, such that when candidates were put forward for election to the USSR Supreme Court, the deputies asked each whether he or she had ever been the recipient of

telephone calls attempting to influence their decision in a case. All denied any such occasion, but the issue remains in the public mind and has become punishable in the new legislation.

The experiment in spring 1989 with multiple candidacies was considered to be successful and has been much expanded in the republican and local elections this spring.

In December 1989 the USSR constitution was again amended in regard to elections, this time to eliminate the automatic one-third of deputies in the Congress of People's Deputies who are indirectly elected by social organisations (the Communist Party, unions, unions of writers, composers, artists, etc.). In the next round, no Party will be automatically assured of representation.

Lawyers are taking their own measures to enhance the profession. Fees have increased slightly, but more importantly ceilings on earnings have been lifted and lawyers are at liberty to negotiate individual fees with foreigners.

Two professional societies have been created. The Union of Jurists embraces lawyers of whatever kind (practitioners, jurists, advocates, judges, arbitrators, academics, procurators, investigators, etc.) and has a potential membership of more than 30,000. The second, the Union of Advocates, accepts only advocates as members.

Judicial review of the constitutionality of legislation, so hallowed in the US, was

berhood so that every republic would be represented. And instead of a body modelled on the US Supreme Court, there emerged a pallid supervisory body with what, on paper, are rather limited powers to draw the attention of other agencies to unconstitutional enactments.

However, in Professor S.S. Alekseev, the chairman of the new Committee, the country has an imaginative jurist capable of developing the Committee's powers to the full extent permitted by the law.

The staged approach to constitutional reform may be short-lived. In November 1989 the Supreme Soviet quietly appointed a commission to draft a new constitution. If a draft is produced (Khrushchev appointed such a commission in 1962; it reported in 1977), it would represent the fifth generation of Soviet constitutions since the revolution (1918, 1924, 1936, and 1977).

There, however, the likelihood is stronger that the Congress of People's Deputies may abandon staged reform for a full scale replacement of the present constitution.

Quite apart from the new presidency, the reforms in land legislation and the law of ownership also require constitutional alterations. The issue is not public versus private ownership, but how a reforming system develops responsive concepts of property which enable it to be deployed most effectively in the interests of the individual and society alike.

William Butler

The author is director of the Centre for the Study of Socialist Legal Systems, University College London.



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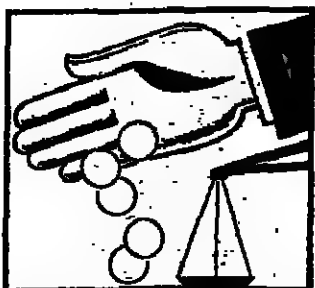
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World Class



Martin Wolf examines the fundamental problems of an economy which produces satellites but not enough soap

Death rattle of the Stalinist war economy

ECONOMIC reform in the Soviet Union faces three obstacles: the legacy of the past, the chaos of the present and the conflict over the future. Five years of experience with perestroika have made the obstacles look more formidable. It has always seemed unlikely that changes which challenge two generations of history will be brought about peacefully. They now look far more difficult than five years ago.

Economic reformers talk of the need to create "a normal economy". They mean by this a market economy, even if it is often qualified by the word "socialist". There is no worthy alternative to the market as the method of co-ordinating the activities and interests of economic agents," states the document put forward, with President Mikhail Gorbachev's backing, by Deputy Prime Minister, Mr Leonid Abalkin, to an "All-Union Conference and Workshop on Problems of Radical Economic Reform" last November.

One way of thinking about the abnormality of the Soviet economy is that it is an extreme type of a war economy. More is involved here than the burden of expenditures on defence. Also significant is the focus on heavy industry and indifference to consumption; the economy's isolation and extreme centralisation; the repressed inflation; the appeals to collective sacrifice; and the paranoia. The war economy has satellites, but insufficient soap, missiles, and very little meat.

The scale of the upheaval entailed by economic reform was not understood five years ago. Academician Mr Abel Aganbegyan, for example, expected that, as a result of perestroika, "the Soviet national income by 2000 would closely approach that of the US". But the real challenge is to avoid falling still further behind. Now, after almost five years of failure, this is at last recognised.

Dr Aganbegyan's analysis does at least explain why perceptive economists had concluded that radical change was essential. Economic growth was declining, quinquennially by quinquennially, even in the official statistics. But Dr Aganbegyan agrees with western critics that these statistics were lies. In his view the economy had become stagnant by the early 1980s. The Statist's approach of throwing up more resources had reached its limits.

As Soviet growth has slowed, so has the rate of growth of the capital stock. The rate of growth of the labour force declined sharply as well, as with that of the availability of natural resources. Meanwhile, economic efficiency (total factor productivity in western parlance) rose by little more than 1% per cent a year after 1970, even in the official figures. If Dr Aganbegyan is right in his view of Soviet growth, there must have been no productivity growth in the 1970s and a decline of about 5 per

cent during the first half of the 1980s.

This desperately poor productivity performance was no accident. A huge proportion of Soviet resources are wasted on tanks and rockets. Investment is grossly inefficient (one study showing an average construction period on 800 large machine-building projects of 18 years). There is little incentive to increase efficiency, especially when so many enterprises are giant monopolies. Last but not least, while the advanced industrial countries were in the throes of the information revolution, the Soviet Union was years behind in the basic technologies and regarded information itself as a contagious disease.

Diagnosis was one thing; finding a cure another. The CIA estimates that, after a short-lived surge in 1985, gross national product rose by a total of 1% per cent over the ensuing three years, while GNP per head fell by more than one per cent. Moreover, this is the good news. The bad news is that the economy is threatened by inflation of Polish proportions.

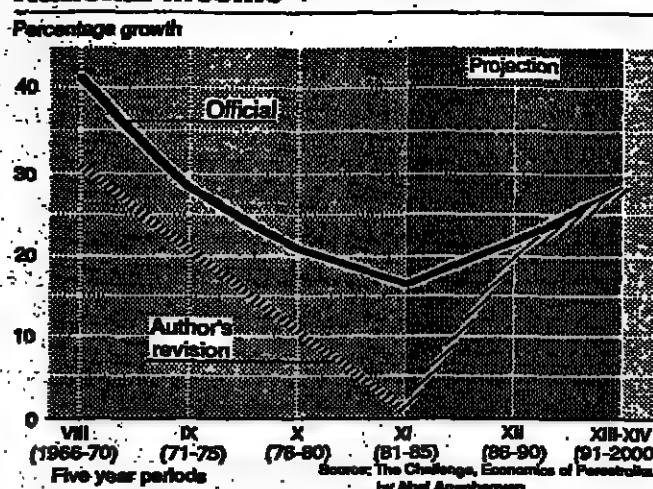
Even the official statisticians suggest that inflation was 2% per cent in 1989, but then add another 5 percentage points for the non-official index. The procedure is peculiar (since the non-availability of goods should appear in the figures for output, not prices) but the point is sound. For citizens and visitors, the non-availability of almost any good or service, to name, except the ruble, has become the economy's salient characteristic.

How have five years of perestroika managed to turn the chronic ailments of the Soviet economy into a critical disease? The answer lies in a deeply divided and weakening central government has pursued policies that were internally contradictory and too often ill-considered. Perhaps the most fundamental, and most frequently recurring, conflict is between disciplinary campaigns, on the one hand, and a shift to market mechanisms, on the other.

In the spring of 1985, acceleration of the country's social and economic development was Mr Gorbachev's main demand. This acceleration programme was a disaster, exacerbating bottlenecks in the economy and providing a boost to largely unproductive investment.

Equally disastrous was the anti-alcohol programme, described by Anders Aslund as "a full-fledged disciplinary campaign of the old style". The short-term effects were impressive, the longer-term ones catastrophic, including a huge increase in illegal distilling (with no fewer than 900,000 stills confiscated within a year and a half) and an important loss in government revenue. The failure of the traditional kind seems to have gone some way towards persuading Mr Gorbachev that something different and more radical was

National income



required. The watershed was the plenary meeting of the Party's Central Committee in June 1987. This was followed, shortly afterwards, by the Law on State Enterprises and, almost a year later, by the Law on Co-operatives. Unfortunately, both these

Some people believe that it would be easier for the Soviet Union to achieve communism than return to capitalism

market-oriented reforms were hamstrung from the start. The Law on State Enterprises endorsed a mutually incompatible combination of enterprise independence with centralised management (enforced through discretionary taxation and state orders, which still cover more than 80 per cent of the total output of state enterprises). Equally disastrous was the introduction of co-operatives, which remain outside the system of state supply and attract the resentment attendant upon their inevitable links with grey and black markets.

At least these efforts have been educational. They demonstrate that one cannot have just a bit of a market. But they also show that the crumbling political system can disorganise the existing system far more easily than reform it.

Of nothing is more true than of money. At the heart of the current problem is the deficit in the state budget (on which information was at last provided in 1989). As a consequence of the investment expansion, the anti-alcohol campaign, increased social expenditures and the fall in the world price of oil in 1986, the deficit increased from Rbl15bn (0.7 per cent of GDP) in 1985 to Rbl30bn in 1988 and Rbl50bn in 1989 (around 11 per cent of GDP in both cases). After strenuous efforts, the deficit is expected to fall to 6 per cent of GDP in 1990.

Since 1984 the ratio of liquid savings deposits to retail sales has risen from 64 per cent to 86 per cent, while government debt has risen from 16 per cent to around 45 per cent of GDP. Goskomstat, the official body

that it is huge.

The worthlessness of the currency also undermines economic decentralisation. Who would work harder to earn useless pieces of paper? At the same time, enterprises make things worse, by engineering concealed inflation through changes in their product mix and then paying higher wages (a process condemned as "group egoism"). The breakdown in central control over

the wage funds of enterprises allowed wages to rise by 10.9 per cent in 1989, while industrial output officially increased by a mere 1.7 per cent.

By the summer of 1989 all intelligent observers began to see the depth of the long run problems and the severity of the short run crisis. Unfortunately, faced with harsh choices, the leadership fudged.

Gosplan Chairman Mr Yuri Maslyukov proposed yet another "crash programme", this time to increase the supply of consumer goods by 12 per cent in 1990. Then, in November, Mr Abalkin's team produced their radical ideas for a market economy, with the traditional socialist elements almost invisible. This plan proposed a five year transition to the market economy.

Alongside Gosplan's proposed emergency measures, 1990 was to see the working out of "reforms of price formation, labour remuneration and social security" and the closure or transformation into "leasehold", co-operative and joint-stock entities of "all unprofitable industrial enterprises"; then, in 1991-92 the new economic mechanism would be launched, with closure or transformation of all "unprofitable state and collective enterprises".

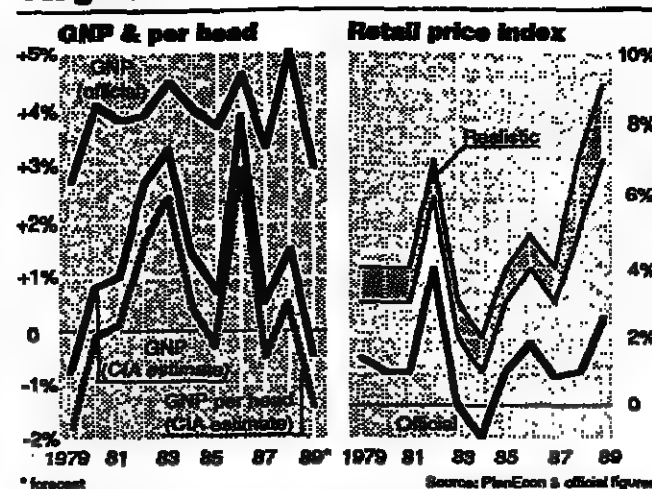
In spite of Mr Gorbachev's support the Abalkin programme ran into fierce hostility. In any case, the subsequent proposals of Mr Nikolai Ryzhkov, the Prime Minister, in early December appeared both to question the goal of the reform and change the time-table. The solution to the immediate crisis lay in a switch from heavy industry to con-

sumer goods, rather than too fast a switch to a market economy. Plans to reform farm gate prices for foodstuffs were postponed to 1991. Retail prices would not be changed before 1992, and then only after a "nationwide debate".

Mr Ryzhkov's intervention leaves the Abalkin programme as the blueprint for the re-orientation of the economy. Its significance is moot, however, since it seems inconceivable that the Soviet economy will be stabilised in 1990. If so, neither price reform nor a move to the market is likely.

The expected boost in the output of consumer goods in 1990 (now Rbl30bn or 15 per cent) looks like just another over-optimistic crash pro-

Stagnation



gramme. The budget deficit may be reduced as planned, but it would still be 6 per cent of GDP. The envisaged sale of various bonds will at best neutralise the monetary effects of this year's budget deficit, but will do nothing about the monetary overhang. The plans for

One way of thinking about the abnormality of the Soviet economy is that it is an extreme type of a war economy

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market formation of prices, greater decentralisation of enterprise, a vigorous anti-monopoly policy and partial convertibility of the ruble.

Yet the Government shows no stomach for the radicalism that has any chance of working. There are several reasons for this reluctance: the scale of the upheaval that would unquestionably follow; ideological blinkers; the opposition of an apparatus that contains some 16 million members, all of whom actually or potentially benefit from the power and perquisites given them by the shortage economy; and, perhaps most important of all, the antipathy of a population taught for 70 years to despise everything - success and failure, unemployment and inequality, profits and property - that makes a market economy work.

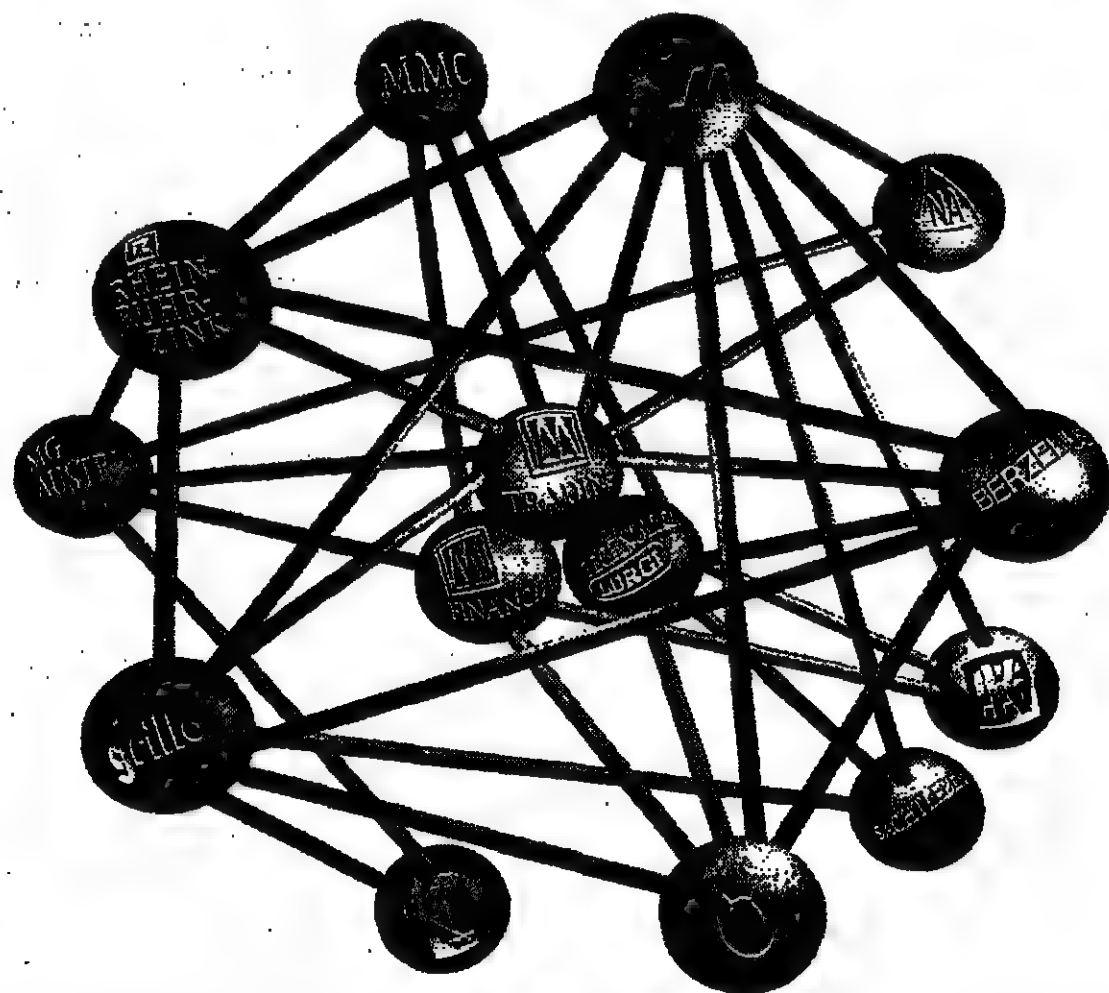
The market cannot just be a pretend, "socialist" one. It must be a real one, with real consequences and real casualties. But such reforms would not only defraud the people of what they thought were their earnings, but of almost all they have been taught and were told they had achieved over three generations. No wonder some say that it would be easier for the Soviet Union to achieve communism than return to capitalism. Unfortunately, a smooth transition to a "planned market economy" looks more unlikely than either. The war economy is dying, but there is as yet no successor, except chaos.

* Abel Aganbegyan, *The Challenge: Economics of Perestroika* (London: Hutchinson, 1988)

** Anders Aslund, *Gorbachev's Struggle for Economic Reform: the Soviet Reform Process 1985-89* (Ithaca, New York: Cornell University Press, 1989)

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ECONOMY

SOVIET UNION 10

A GLOBAL COMPARISON

Measures of the task ahead

HOW LARGE is the Soviet Economy? How does its structure differ from that of the leading industrial countries?

Now that gross national product is estimated by the Soviet statistical authorities, these questions might sound quite simple to answer, but they are not. This is not only because Soviet statistics are particularly unreliable, but also because the official exchange rate for the rouble is arbitrarily determined and the structure of prices in the Soviet Union is also very different from that in the West.

At the average official exchange rate of \$1.59 to the rouble, the Soviet Union's gross domestic product in 1987 would have been only \$1.3 trillion (million million). In that year the GNP of the US was \$4.5 trillion, Japan \$2.4 trillion and West Germany \$1.1 trillion. On this basis, therefore, the economy of the Soviet Union was considerably smaller than that of Japan and little larger than that of West Germany.

But the Soviet Union is more economically powerful than that. The size of its economy must be recalculated, using not

the official exchange rate, but a common set of international prices.

For the western economies such purchasing power estimates of GNP are computed by the European Community and the OECD; for the Soviet Union comparable estimates have been prepared by Mr Boris Bolotin, a researcher at the Insti-

tute of World Economy and International Relations.

Such estimates are unavoidably rough and ready, particularly when the quality of Soviet goods is so much worse than those of the West. But Mr Bolotin's estimates of the overall size of the Soviet economy are at least close to those of analysts in the CIA. (But

note the uncertainty. PlanEcon - a well-informed, Washington-based organisation - suggests that the Soviet economy may be 40 per cent smaller than the CIA estimates.)

According to Mr Bolotin's estimates, revised at 'international' prices (an average of prices in the Soviet Union and in the countries of the OECD), weighted by their GNP, the GDP of the Soviet Union would have been \$2.3 trillion in 1987, about half that of the US, but bigger than that of Japan, which shrinks to \$1.8 trillion (because of the exceptionally high price of services in domestic prices).

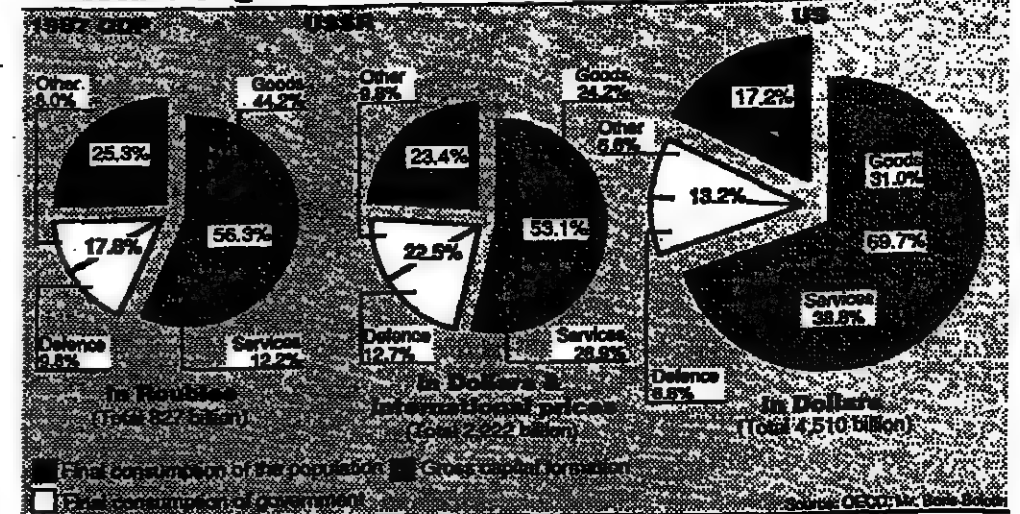
The Soviet economy also turns out to be more than twice as large as that of West Germany. (On PlanEcon figures, however, the purchasing power of Soviet GDP would have been only \$1.5 trillion, less than that of Japan.)

The Soviet Union is unquestionably a poor country, its overall economic size being explained by its large population. GDP per head on a purchasing power basis - estimated by Mr Bolotin at \$7,900 in 1987 - was 49 per cent of that of the US and about half

those of West Germany, Japan, France, the UK and Italy (all of which are fairly close together). Real GDP per head in the Soviet Union would then be close to that of Greece. (On the PlanEcon estimate, Soviet GDP per head would be closer to that of Turkey.)

What is more, the improvement in the Soviet Union's relative position since 1913 appears to have been modest. According to Mr Paul Batroch, Russia's GNP per head in 1913 (in 1980 dollars and prices) was a third of that of the UK, 45 per cent of the German level, 47 per cent of the French and 74 per cent of the Italian. While the improvement relative to the UK appears to have been substantial since the Revolution, that against Germany and France has been small, while Italy has moved further ahead. Soviet personal consumption is limited not only by the low average income per head, but also by its low share in Soviet GDP. In 1987 the share of Soviet GDP devoted to the consumption of the population (in domestic prices) was a mere 58 per cent, against 70 per cent in the US and 60 per cent even in Japan.

Structure of gross domestic expenditure in US & USSR



In domestic prices almost two thirds of Soviet final consumption (which includes government consumption) goes on food and clothing, a much higher proportion than in the leading industrial countries. A far smaller proportion of Soviet consumption goes for personal transportation (cars), housing, education and medical care. In 'international' prices, expenditures on personal transportation shrink to almost nothing, while those on health remain remarkably low, at only 4% per cent of GDP (as against 11% per cent in the US).

The low share of Soviet personal consumption in total expenditures partly reflects the high share of government consumption. Defence spending was particularly onerous, at 9.8 per cent of GDP in domestic prices (on the official figures) and 12.7 per cent of GDP in 'international' prices. Western analysts argue that defence spending is, in fact, substantially higher than officially indicated, perhaps as much as 13 per cent of GDP in domestic prices and 17 per cent in US prices. The investment effort is also equally impressive. Of the leading industrial coun-

tries only Japan invests a larger share of GDP than the Soviet Union. Yet, correctly measured, Soviet income per head seems to have stagnated for over a decade. No more powerful indication could be given of the extent of the inefficiency that President Mikhail Gorbachev's economic reforms are intended to remedy.

Martin Wolf

* Paul Batroch, Europe's Gross National Product 1800-1975, Journal of Economic History, 1976, p. 297

INTERNATIONAL TRADE

An outsider knocking on the West's door

"THE WORLD economy is becoming a single organism, and no state, whatever its social system or economic status, can normally develop outside it." So said President Mikhail Gorbachev in a speech to the UN General Assembly in December 1988. In a subsequent speech in London in April 1989, he asserted, quite bluntly, that "our economic reform presupposes the Soviet Union's closer integration into the world economy."

No country has tried harder to develop outside the world economy. The Soviet Union is, as a result, a peripheral player in both world trade and investment, which are, in turn, marginal in the economy of the Soviet Union. The lengths to which it has gone are a measure of the changes that will be required if it is to integrate within "the single organism" of the world economy.

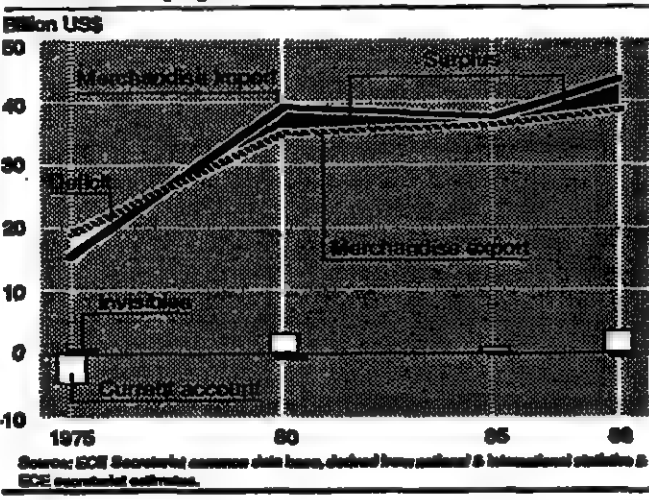
For example, the rouble remains almost entirely unconvertible into foreign exchange (or, indeed, anything else). Moreover, a combination of foreign exchange retention quotas and 3,000 product-specific coef-

ficients for conversion of foreign currency into roubles has created one of the world's most elaborate multiple exchange rate systems.

While designed to encourage processing of raw materials, the number of foreign exchange coefficients also

reflects the isolation of domestic from world prices. According to calculations done at the State Bank, the purchasing power exchange rate for the rouble varies between 30 kopeks to the dollar for food (at official prices), to between Rb63 and Rb65 to the dollar for

Balance of payments in convertible currencies



many consumer goods, to Rb60 to the dollar for more sophisticated consumer goods, like video-cassette recorders.

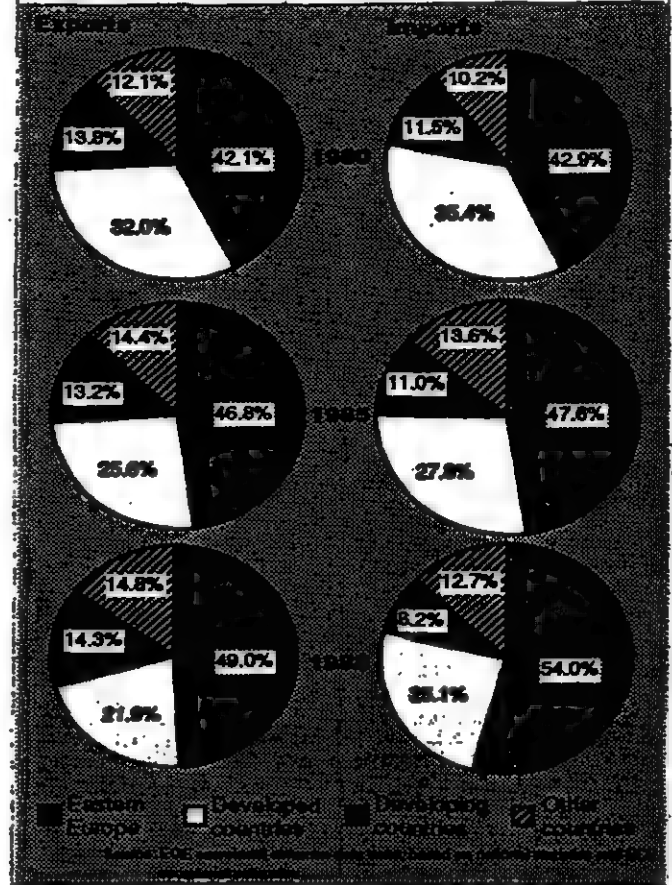
An inevitable consequence of the isolation of the domestic from the global economy is that the Soviet Union exports rather little, while its pattern of exports is that of a third world country. Thus, in 1988 about 36 per cent of Soviet exports to the non-socialist world consisted of fuel and 45 per cent of its total exports were of petroleum and gas.

In 1988 total Soviet exports were \$111bn, of which only \$42bn were for convertible currency, while Soviet imports in that year were \$107bn, with \$81bn in convertible currency, leaving the country with a modest current account surplus of \$3.8bn (after allowing for invisibles).

According to the Gatt, this overall picture made the Soviet Union the world's eighth largest exporter, coming just after Canada and accounting for 3.9 per cent of world exports (which can be contrasted with the West German share of 12.2 per cent and the US share of 11.1 per cent). On this basis, the Soviet presence in world trade is not insignificant. But that conclusion is misleading in two respects.

First, if one looks at exports for convertible currency and so subject to free international competition, the Soviet share of world exports is well below those of small economies such as Taiwan, Hong Kong, South Korea, Switzerland or Sweden. Second, only 47 per cent of Soviet exports to non-socialist countries were manufactures. At around \$30bn, these exports were less than half those of Hong Kong or South Korea and were dwarfed by those of the leading western economies.

Regional trade structure



This feeble export performance must be transformed if an increasing proportion of Soviet output is to be made subject to international competition (whether at home or abroad). Without expanded exports of manufactures for hard currency, imports will remain constrained by the limited Soviet capacity to increase its external borrowing (a con-

straint to the Soviet authorities already) and by its still more limited capacity to expand exports of petroleum. It is true that new arrangements within Comecon will, in time, increase Soviet hard currency revenue from energy exports. Yet even that silver lining has a cloud, since Soviet enterprises will lose a protected export market.

Radical change may be needed, but - as in other areas of Soviet economic life - reform has been halfhearted so far. Domestic prices remain as divorced from those in the world market today as five years ago and the rouble is, if anything, still further from convertibility. Unsurprisingly, trade performance has failed to pick up.

The most interesting changes have been the somewhat restricted permission to enterprises to make their own trading arrangements and the encouragement of joint ventures. The former demanded a vigorous assault on the previously all-powerful Ministry of Foreign Trade.

At the strategic level the State Foreign Economic Commission was established as a "super ministry" in charge of policy-formation in external economic relations. Meanwhile, 13,880 organisations (more than a quarter of the larger enterprises) have registered their intention to conduct external trade on their own behalf.

One problem created by the freedom granted to enterprises is that, in their desperation for hard currency, they are prepared to sell almost anything they can get their hands on. Several scandals have been the inevitable consequence of granting such freedoms in the context of the hugely distorted Soviet economy. As with the co-operatives, these scandals tend to discredit the whole idea of decentralisation in trade.

Some 1,284 joint ventures from 60 countries have now been registered, but only 200 are operating, mostly on quite a small scale, the average capital employed in the more recent joint ventures being a mere Rb3.3m (\$3.3m, at the official exchange rate).

As Mr Ivan Ivanov, deputy chairman of the State Committee on Foreign Economic Relations remarks: "Joint ventures are just one channel" for opening the Soviet economy. He also describes them as a "model of the post-reform Soviet economy". In the pre-reform economy, however, they are of marginal importance, partly because of the obstacles they face, the greatest being obtaining supplies in a Soviet economy which still works on administrative lines.

Meanwhile, the Soviet Union is flirting with the idea of membership of the Gatt and the International Monetary Fund. But, however symbolic this would be, membership of these institutions is a side effect of integration of the Soviet into the global economy is waiting for Gorbachev's economic reform at home.

Martin Wolf



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MR GAVRIL Popov - member of the USSR Academy of Sciences, editor of Problems of Economics and leading member of the co-ordinating committee of Democratic Platform, the radical faction in the Congress of People's Deputies - is a 'left winger' in Soviet parlance. In the West he would be seen as a blend of an egalitarian and a classical liberal.

Professor Popov argues that "economic reform has come to a point where it directly touches upon the privileges of the communist apparatus and even threatens its very existence."

"This is why external pressure must be imposed either by the Supreme Soviet or by the Party Congress," he says. "If it is pushed only by the people, it will be higher than they are now."

"In any case, the government will end up with a system of rationing, but not until it has first ruined the country. Only members of the apparatus are against rationing, because they can now obtain

Interview: Gavril Popov

The party as villain

again by the government. "If other people come to power, whom the people trust, they will agree to the reform."

To alleviate popular resistance, Professor Popov argues for combining price reform with rationing of basic foodstuffs for the benefit of vulnerable groups, like pensioners.

A sharp decline in investment and defence spending will release vast resources to the consumer sector, whereupon market prices will go down, though they will be higher than they are now.

"In any case, the government will end up with a system of rationing, but not until it has first ruined the country. Only members of the apparatus are against rationing, because they can now obtain

supplies at the low official prices."

In addition, "a monetary reform must be introduced immediately." According to Professor Popov's proposal, people would have to justify the money in their accounts. If unable to do this, they would have the money confiscated or, more likely, would leave it unclaimed.

His proposal differs from that of the United Workers Front, a "conservative" populist movement, which favours confiscation of all sums over a certain amount - perhaps Rb15,000 (\$35,000 at the official exchange rate).

Professor Popov's intention, in contrast, "is to show as much consideration for the people as possible. This is why

have a lot of privileges which later turn into money savings."

The monopolisation of the economy is the most intractable long term problem, admits Professor Popov. None the less, he retains a radical vision of the future.

Ultimately, he hopes, 20 per cent of property will be in family hands, 30 per cent in the state sector and the rest in various collective forms, including share-holding and co-operatives.

Of the state sector only a third should remain in the hands of the central government, with the rest going to the republics.

Professor Popov regrets the failure of the newly-introduced draft law on property to include private property (other than family property).

Once more, he blames the Party, ascribing the failure to the attacks upon private property at the plenary meeting of the Communist Party's Central Committee in February.

Martin Wolf

SOVIET FAR EAST

High hopes

THE Intourist Hotel in Khabarovsk, across the Amur River from the northern tip of Manchuria in the Soviet Far East, was in early February filled with a mixture of Japanese, Chinese, Americans and Koreans, from both North and South.

This is to be expected, given the city's location. Yet it is none the less symbolic of what the Soviet government would like but has so far failed to achieve - broad integration of the Soviet Far East with the world's most dynamic economic region along the Pacific Rim.

In this sense, the Soviet Far East is a promise that has never been fulfilled. It is a vast area equal in size to Australia and accounting for 27 per cent of Soviet territory. Yet it is sparsely populated and rich in natural resources - timber, coal, oil and gas, and a host of minerals - that have never been fully developed.

Big infrastructural projects to develop coal and gas exports to Japan were seriously discussed more than 20 years ago, but these fell prey to the chilly relations between Moscow and Washington, when Japanese companies declined to move forward without US backing.

President Mikhail Gorbachev signalled a new thrust to develop the Far East in 1985, in his Vladivostok speech, when he called for closer ties with Asian nations. The speech was greeted with suspicion by the US and other nations of the Pacific, who feared expansion of Soviet naval and air power.

Although fear of Soviet power has receded, and the economic and trade climate has improved, hopes for rapid development of the Far East may still prove premature because of continued obstacles both domestically and with foreign partners.

A characteristically grand Rb200bn investment programme by 2000 was fixed in 1986, following Mr Gorbachev's speech. Yet Mr Oleg Kozin, an economist at the Far Eastern Branch of the Institute of Economic Research in Khabarovsk, says the programme is already in deficit and the investment figures have been cut.

Even so, as Mr Kozin points out, the situation is not as bad as it seems. As a less

developed region, the Far East economy is less distorted by the Soviet central planners' obsession with producer goods. Mr Gorbachev's vision of Far East development emphasised raw materials and heavy industries, with provision of housing, food and consumer goods a mere afterthought.

There is at least a possibility that Far Eastern development, integrated with regional economies, can be demand led and thus end up producing and trading for more useful goods.

The Far East is not a low-cost operating base. Severe Arctic weather conditions affect most of the area, and 80 per cent is in permafrost. This condition leads to water-logged surface condition in the summer months, because of poor drainage, and prevents normal building construction, which could melt subsurface ice and cause subsidence.

Labour recruitment and

The Soviet Far East is a promise that has never been fulfilled

retention in the area has proved a persistent problem. Although wages are between 40-50 per cent higher than in central Russia, there is still little to be purchased. Housing is in short supply and cultural amenities are austere.

There are ambitious plans to expand electricity generating capacity in the region from current levels of 40GW to 110GW in the next 15 years. This would include a new nuclear plant, more large hydroelectric stations, a 100MW tidal power station, a vast increase in gas-turbine capacity, as well as a 50 per cent increase in coal burning, even though coal's share of power generation is to drop from 80 per cent to 60 per cent.

It remains to be seen whether these plans are financially or environmentally acceptable. Mr Anatoli Kolenchenko, chairman of the recently-formed Khabarovsk Territory Committee of Nature Protection, which must now sign off on all new industrial developments, calls the local environmental situation "alarming."

Hyundai has become the first South Korean company to open an office in Nakhodka, the seaport where a special economic zone is planned, and is expected to start exporting timber later this year. There is talk of a Khabarovsk-Seoul air link. North Korea is setting up a joint venture to process ginseng, while China has a joint venture restaurant, the Harbin, in the city.

Two-way border trade with China in the Khabarovsk territory doubled last year to Rb50m, although there are doubts about future growth after the licence requirements were imposed on local enterprises by the central government. Total foreign trade for the territory rose from Rb200m to Rb410m.

The US is also beginning to play a role. Flights to Anchorage are being planned. A small US joint venture is operating which provides services to visiting businessmen. Mr Kozin speaks optimistically about the future: "We have been accumulating and have such a large package of projects that this potential will inevitably come into being."

Yet what has happened so far is really small potatoes and it remains to be seen whether Moscow will set conditions to make large-scale foreign involvement of the sort envisioned attractive.

Steven Butler

Interview: Victor Geraschenko

Model central banker

"THE SOVIET people want a central bank that will sometimes say yes to the Government." With these words Mr Victor Geraschenko, chairman of the State Bank of the Soviet Union since August last year, claims his independence. Equally bluntly, he asserts that "the decision to put the price reform under the table is unforgivable. We have lost two years. Economic reform will not work without price reform. The later price reform starts, the more time will be lost."

"The internal price system is such that we cannot work out a realistic rate of exchange for the rouble," he says. "Similarly, 'our proposals for changes in interest rates cannot work without the price reform. Only when the price reform starts, the more time will be lost."

"The internal price system is such that we cannot work out a realistic rate of exchange for the rouble," he says. "Similarly, 'our proposals for changes in interest rates cannot work without the price reform. Only when the price reform starts, the more time will be lost."

"which is why enterprises have a huge stock of materials which they can use for barter purposes."

The State Bank proposes, instead, interest rates of 5 per cent on short term credit (of up to a year), rising to 8 per cent for credit of over three years. "Maybe we will introduce the reform in stages. But for industrial units we will be able to introduce the new interest rate structure in the second half of this year."

Even with price and interest rate reforms, "we will not be able to have an ideal banking system, in which the bank manager will be able to say 'no' to enterprises," he says. "The previous centralisation under the plan means that many enterprises are monopolies."

Accordingly, "we will have administrative methods and bargaining between enterprises and the Government for a comparatively long period of time."

The current difficult economic situation Mr Geraschenko ascribes to "the changes introduced in 1987 under the belief that if enterprises were free to choose what to produce and how to satisfy market demand, everything would work perfectly." Control over wages was then lost.

"There has been a lot of discussion of the desirability of monetary reform. In my opinion monetary reform will not solve the problem," Mr Geraschenko notes that monetary reform must await the bulk of the price reform. "Some people in trade unions say that a money reform would take



Victor Geraschenko

money from the grey economy, but I do not think it would achieve this. The wealth of people engaged in the grey economy is in durable goods."

Not that Mr Geraschenko is any more enamoured of the Ministry of Finance's proposals for financing the fiscal deficit. The Ministry of Finance is planning to issue up to

CO-OPERATIVES

Right reform at wrong time

FOR President Mikhail Gorbachev and the radical economic reformers, co-operatives are a respectable Leninist route to a peasant economy.

The Law on Co-operatives, adopted in May 1988 was correspondingly radical. As Mr Anders Aslund notes in his study of economic reform in the Soviet Union, "the law illustrates how much easier it is for Soviet communists to accept the market than private ownership."

Unfortunately, this turned out to be a case of the right reform at the wrong time.

At one level co-operatives have been a success. Mr Viktor Georgiyevich Rudenko, president of the All-Russian Union of United Co-operatives and himself an active participant, cites some impressive statistics. In Leningrad, he says, there are now 7,000 co-operatives, employing 300,000. In the Russian Federal Republic as a whole co-operatives employ

more than 1m, while their turnover has soared from about Rb1bn (11bn at the official exchange rate) in 1987 to Rb200bn in 1988.

In essence, co-operatives are private businesses. A minimum of three founders is required, apart from the permission of the local

for the opportunity to earn a higher income.

"The labour productivity of workers in co-operatives was three, five and even 10 times higher than in ordinary enterprises," he says. "Some people on February 27 1988, in addition, co-operatives have been able to provide services

that co-operatives will damage the state sector, because they will siphon off efficient and energetic co-operatives and good specialists and introduce a new atmosphere (Ivaska, February 27 1988).

People mean about the new "millionaires". As supply conditions in state shops deteriorate - the inevitable consequence of the Government's inflationary policies and the collapse of wage discipline in state enterprises - co-operatives have become a natural magnet. Here, at least, is a chance in which to escape the functions and workers can unite.

"We live in the trenches," complains Mr Rudenko. "Taxation is arbitrary. In Leningrad, he claims, it is difficult to register co-operatives and often impossible to obtain premises. Trading and purchasing co-operatives are not being registered at all in both Leningrad and Moscow, while in Moscow medical co-operatives have been closed down. In Uzbekistan all trade and purchasing co-operatives have been closed down."

It has been made difficult for co-operatives to withdraw money from their bank accounts in state banks, says Mr Rudenko. They have even been put under strong moral pressure to pay lower wages.

In short, co-operatives stick out like a sore thumb. They were introduced into an economy (and society) that has no legitimate place for them. They enjoy no stable legal framework and suffer from arbitrary taxation. They find it almost impossible to obtain supplies from official sources and are correspondingly driven into the grey and black markets.

Expensive supplies must mean high prices at the point of sale. Yet huge profits can be made, given the scale of unmet demands. It is no wonder that co-operatives are labelled "profiters" and have become closely associated in the public mind with the black marketeers and gangsters on whom they must often depend.

The world of the co-operatives is that of Joseph Heller's Catch 22: as an alien implant in the Soviet shortage economy, co-operatives must operate in the risky and expensive world of the grey economy but, because of their inevitably high prices, the body politic rejects them still more firmly. Hovering on the boundary between legality and illegality, between legitimacy and persecution, the state of the co-operative symbolises that of economic reform itself.

* Anders Aslund, Gorbachev's Struggle for Economic Reform (Ithaca, New York: Cornell University Press, 1988)

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FINANCE

SOVIET UNION 12

Banks' role in communist demonology makes their reform sensitive, writes David Lascelles

In search of greater financial discipline

REFORM of the Soviet banking system is one of the key elements of President Mikhail Gorbachev's drive for greater efficiency. He wants banks to help to introduce proper credit disciplines into the Soviet economy. But the task is immense, and the disciplines will only work if credit — like everything else — is given a proper price.

The reform is especially sensitive because of the high place that banks have always occupied in communist demonology. The state apparatus is also loath to hand financial power over to the banks. None the less, change is afoot, and banking legislation will be proposed quite soon.

"The aim is to introduce the classical banking structure of a market economy," says Mr Sergei Yegorov, the chairman of the Moscow Banking Union, the trade association for independent banks in the capital. Traditionally, banking has been a state monopoly handled by Gosbank, the state bank. But it was not banking in the western sense, more a machine for doling out state investments. Two years ago, moves began to break this monopoly and introduce commercial banking.

Gosbank pulled out of the financing business, handing over most of its lending and other functions to five specialised banks, Agroprombank for agriculture, Zhilotsbank for municipal services, Promstroibank for industrial construction, Sberbank for personal savings, and Vneshekonbank for international banking.

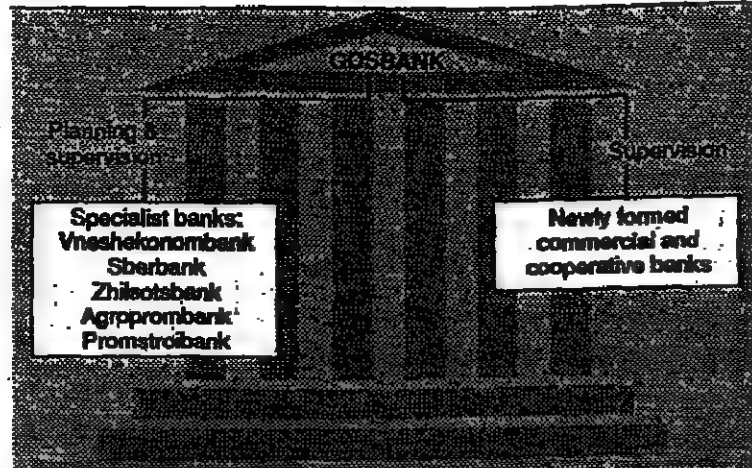
At the same time, the establishment of independent banks was permitted, and these sprang up like mushrooms. Within 18 months, there were some 200 of them. They took three forms, so-called branch banks created and owned by large enterprises such as the automobile industry, co-operative banks, and innovation banks which are similar to western venture capital banks.

The hope is that the specialist banks will play a big role in gingering up the market by becoming universal banks and competing among each other western-style. Some of them may even be converted into joint stock banks with corporate shareholders.

But thus far their record has been disappointing. They have been accused of merely creating their own monopolies and adding even more bureaucracy to the banking system. And as far as Gosbank is concerned it represents a loss of monetary control because the banks still dole out huge amounts of loans according to ministerial diktat rather than applying proper credit judgments.

"We have not achieved much that is positive with the banking reform so far," admits Mr Victor Geraschenko, the chairman of Gosbank

State bank of the USSR



who strongly favours radical changes.

Sberbank with its Rbs3400m deposit mountain is also scheduled to play a more active role than in the past when it merely acted as a vacuum cleaner for savings to finance the government deficit.

However its 77,000 agencies are only 10 per cent automated, and its profitability is entirely at the mercy of whatever interest rates the authorities choose to set. Although it has joined Visa, its credit cards

are virtually unusable in the Soviet Union, and there are only four cash machines in the entire country. None the less, the laborious process of training staff for a new era has begun, and small numbers are being sent abroad to learn the art of banking, in places like London.

The biggest changes have taken place in the commercial banking sector where several dozen new banks are now in business, 60 of them in Moscow alone.

The more successful have been

able to take advantage of the enormous inefficiencies and distortions of the state system to accumulate clients and make good trading profits.

For example, the Commercial Bank for Innovations in Moscow reckons to provide a much wider and faster service than any state bank, according to its chairman Mr Mikhail Khodorkovsky. He arbitrages the Soviet Union's multiple deposit and internal currency markets to achieve dealing spreads that would make any western banker's mouth water.

Similarly, the Innovation Bank of Leningrad is able to raise deposits at 5-6 per cent and lend them out at 10 per cent, according to its deputy director, Mr Vladimir Pletnev, though like many new banks it also specialises in financing entrepreneurs, and providing other services like leasing.

The huge publicity which the commercial banks have enjoyed has probably exaggerated their importance. They still account for less than 2 per cent of total banking assets, though bankers claim to have 11 per cent of commercial assets in their city. Many of them have also been derided as "pocket banks" because of their incestuous relationships with their owner-clients.

On the other hand, they are encouraging grass roots entrepre-

neurship, and fostering through their inter-bank activity the beginnings of a rouble money market.

But good times will not be typical of life for commercial banks. At the moment they have little regulation or competition, and are also widely mistrusted for their inexperience and high loan charges.

"Now, commercial banks are taking the cream," says Mr Yegorov, "but they realise the golden times will pass." Last year they were also subjected to a 60 per cent tax rate which has made them complain furiously of discrimination.

The new package of banking legislation will come in two parts, one on the role of Gosbank and the other on the banking system itself. It will establish Gosbank as the Soviet central bank and supervisory authority, and will lay down capital requirements and other criteria for prudent banking, such as compulsory reserves. Auditing will also be tightened up.

More controversial is likely to be its provisions for interest rate control. The independent bankers expect to have their freedom of action tightly curtailed by the law, particularly insofar as loan charges are concerned, though there may also be ceilings on deposits rates to prevent them competing too fiercely for funds against Sberbank.

But dramatic though all these

changes are compared with as little as three years ago, there must be doubts over how far banking reform can go without fundamental parallel reforms elsewhere in the Soviet economy.

For instance, Agroprom, the agricultural bank, is carrying a huge portfolio of farming loans on which it can only charge 1 per cent. If it bumped up its rates, a large proportion of its borrowers would probably go bankrupt.

"This prevents us from introducing sound commercial banking on western lines tomorrow," says Mr Oleg Mozhaikov, chief of the currency directory of Gosbank, who warns that the Finance Ministry will have to take over the burden of loan subsidies from the banking system if it is to do its job properly.

Whether all these changes will enable the Soviet Union to introduce an effective credit policy — the ultimate aim — remains to be seen. Gosbank will have to establish its independence from the Finance Ministry, interest rates will have to be set at realistic levels, and the whole banking system will have to be managed and supervised on commercial lines.

At the moment, the Soviet Union is so far away from all these goals that the prospects look distant, to put it mildly.

INTERNATIONAL BANKING

Wary look at Aladdin's cave

TRADITIONALLY, the Soviet Union has always enjoyed a high standing in the international financial community: it paid its debts on time, and its huge natural wealth gave comfort to its creditors. But that is beginning to change.

One reason is the predictable effect of the steady deterioration in the economy. External debts are mounting and strains are beginning to appear in Moscow's hard currency accounts. But another reason is the structural one of economic reform. Where borrowing was previously centred on Vneshekonbank, the foreign trade bank, it has now been dispersed among dozens of Soviet ministries and enterprises, all of which have to be separately assessed by foreign lenders. Even Vneshekonbank, Vneshtroybank's successor under the reforms, is not backed by state guarantees.

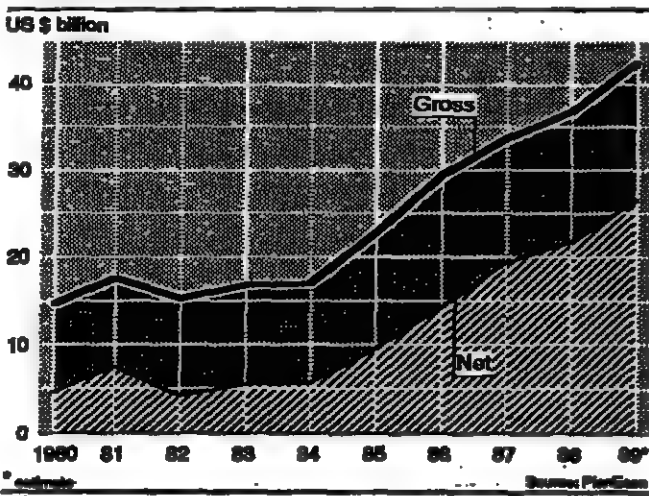
Fortunately for the Russians, their credit standing is sufficiently good to remain unfazed by Third World-style worries. But the big question is just how much the Soviet Union will have to borrow to get its ramshackle economy back into shape. Who will lend it this money, at what price?

The Soviet debt is one area where glasnost has yet to penetrate fully. No official figures are available. But a Moscow trade journal reported last September that the gross hard currency debt was equivalent to about \$44.7bn at the beginning of 1989, and this is not denied by Soviet banking officials. Indeed, they admit it has gone up since then.

This is not excessive for a country the size of Soviet Union, particularly since it has some offsetting deposits in western banks, and a large gold stock. More worrying is the annual servicing cost of \$19bn at a time when the Soviet Union is running a hard currency trade deficit of more than \$1bn a year.

According to the OECD, the Soviet Union's ratio of net debt to hard currency exports exceeded 100 per cent for the first time last year. Western bankers report increasing incidents of delayed payments, and

Soviet debt



all this is pushing up the Russians' cost of money in the market, with spreads on Soviet credits more than doubling. "The situation is becoming quite tight," admits Mr Victor Geraschenko, the chairman of the State Bank, partly because of additional grain purchases that have had to be made. But, he says, "the Council of Ministers is aware of the situation."

On the other hand, the Soviet Union clearly does not, at this point at any rate, see its salvation in massive external borrowing. This was ruled out by Mr Nikolai Ryzhkov, the Prime Minister, in January when he said: "The government is perfectly well aware of the heavy economic and political consequences of high foreign currency debts, and the debt, unfortunately, continues to grow."

As for opening up the country to direct foreign investment — another possible solution — that remains beyond the political pale. Mr Ivan Ivanov, deputy chairman of the State Committee on Foreign Economic Relations, which oversees the entire foreign trade system, says: "There are still very strong philosophical objections to that, to say nothing of technical obstacles. Let's wait and see."

For all these reasons, the role of western finance is

expected to remain rather limited in the foreseeable future. Moscow's 48-strong foreign banking community is focusing on financing opportunities for very specific projects, preferably those with some kind of foreign currency generating content, while the Russians themselves want more deals with non-recourse finance.

The decentralisation of foreign trade has been a complicating factor for foreign bankers, who have been cautious about dealing with unfamiliar entities whose credit standing is unclear. "We would have to look very carefully at the new bank," says Mr Richard Cole, the Midland Bank's representative in Moscow. The western governments' official export credit agencies are also having to decide whether to extend their guarantees to new names. So far only three, the Belgian, Italian and Spanish, are doing so on a regular basis.

Vneshekonbank, which regulates the foreign borrowings of Soviet enterprises, has been cautious about loosening the reins, knowing that decentralisation can quickly lead to matters getting out of control — as happened in China during the reforms in the mid-1980s.

So far, according to Mr Alexander Kolpakov, a general manager at the bank, it has

only licensed 49 enterprises from thousands of applications. And all these are required to make it plain to their creditors that they have no state guarantees. "We have to be very cautious because of the inexperience of these enterprises," he says. On the other hand, the fact that they have been licensed is itself a comfort, because it means they have official Soviet approval.

Foreign borrowing rights are also being withheld from the small new commercial banks which are springing up around the country, many of them itching to get involved in hard currency business. "None of them are equipped to deal in international markets," says Mr Kolpakov. "Even we have a shortage of qualified staff."

For many enterprises, the only way to obtain currency is through the official auctions. But so far only two of these have been held, and the participants have been limited to the more important state-owned enterprises with the result that the amount of currency traded has been tiny. Although many experts are saying the auctions should be opened up, Vneshekonbank seems wary of making them too big too quickly.

One innovation was the creation last year of a new bank, Moscow International Bank as a joint venture between Vneshekonbank and six western banks. Although not yet up and running, the new bank will have borrowing rights and could become another important source of Soviet finance.

Eventually, the Soviet Union will get round to applying for membership of the International Monetary Fund, and following that the World Bank. Talks are only at the initial stage, but Soviet officials are already indicating that their motives are not simply to lay their hands on large new sources of finance. "If we join the IMF it will not be to open up an Aladdin's cave but to import external discipline," says Mr Geraschenko at the State Bank.

David Lascelles

Interview: Bakhytbek Baiseitov of Centerbank, Alma Ata

The spirit of enterprise

TWO YEARS ago Mr Bakhytbek Baiseitov was an official in Gosbank in Kazakhstan. Then, along came the banking reforms, and he immediately seized the opportunity to become founder and president of the Alma Ata Central Co-operative Bank, or Centerbank as it prefers to be known.

Today, he is one of the Soviet Union's banking entrepreneurs. Youthful, dynamic, he is typical of the small but resourceful breed of young businessmen who have sprung out of the Soviet state machine at the moment of liberalisation. Operating from cramped offices in the Kazakh capital, he hustles around town in vans and jeeps, drumming up business, keeping customers happy, watching out for deals.

"The spirit of enterprise is very strong," he says. "Many people want to do it, but the opportunities are very small." In some respects, he operates in a dream market. "The state

banking system is so inefficient that enterprises managers are desperate to switch their business to Centerbank even though its charges are high. And there are so many distortions in the system that bargains abound for those with a sharp eye."

On the other hand, Centerbank is still at the mercy of the state system for regulation; money transfers and taxation, all of which cramp its style. Also, the unpopularity of the co-operative sector to which two thirds of the bank's clients belong curbs an element of uncertainty over the business.

Centerbank was registered in September 1988 and by last month had grown to have own funds of Rbs2.4m and total assets of Rbs4.5m. It has about 600 clients and employs 38 people. Its clients include organisations like Universal, a two-year old repair services co-operative, and a new restaurant specialising in Korean cuisine.

Although it provides standard banking services such as deposit-taking, lending and money transfers, Centerbank makes more than half its money from fee-generating business, such as advising on and financing joint ventures, consulting, and providing tax accounting services.

It also plays a venture capital role. Thus far it has invested about Rbs1m in six enterprises in auto repair, vegetable canning, tourism, football, trading and construction. Mr Baiseitov says he is also in the process of negotiating a joint venture in the advertising business with a German company.

To what extent Centerbank employs financial disciplines that would be recognisable to capitalists is hard to judge. Mr Baiseitov himself admits that expertise is the one commodity he finds in shortest supply in trying to build the business. He makes his credit deci-

sions by classifying would-be borrowers in three ways: those whose credit standing is unquestioned either because of their strong backing or sound management, those which he knows less well but who still enjoy a good reputation, and those of doubtful standing. This is a far from perfect system, and he acknowledges that Centerbank already has some bad credits. "But we are a venture business," he says.

Mr Baiseitov is not, surprisingly, an enthusiast for economic reform. "We need proper relationships between enterprises, and with the right measures the Soviet economy could make a big jump forward," he says. But as a member of the Communist Party he also wants to see safeguards. "We need reform to stimulate private enterprise, but also a tax system that redistributes the wealth that is created."

David Lascelles

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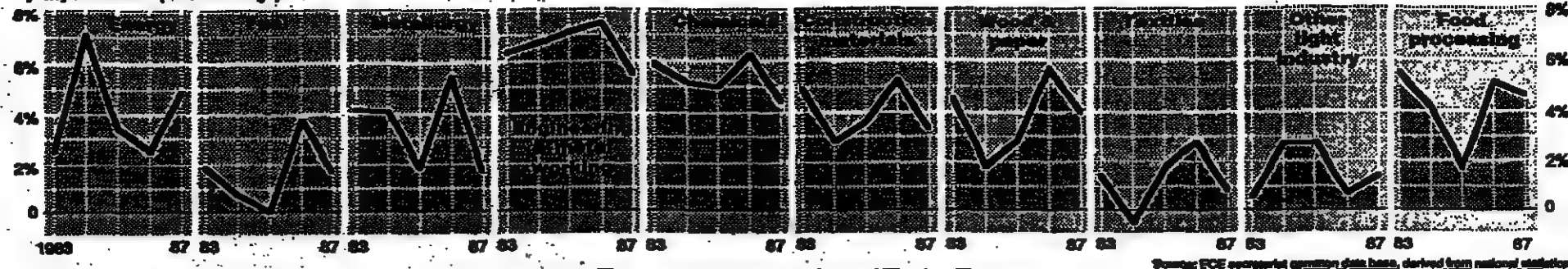


Industry must choose between obeying the ministries or the market, writes Charles Leadbeater

Enterprises torn between two masters

Gross industrial output

By major branches (Annual change)



SOVIET industrial enterprises are caught between the ministries and the market as they enter the 1990s. A transformation of the status and performance of Soviet industrial amalgamations has been at the heart of economic reform since 1987. In the past three years joint ventures have been encouraged to bring in foreign management and technology. Co-operatives are allowed to operate like quasi-private companies. But the centre-piece has been self-financing at lumbering state enterprises to give them more responsibility for their performance and profits.

For instance in Belorussia only two of the 30 joint ventures signed have started production. Co-operatives contribute only 0.5 per cent of the industrial output of state enterprises.

Cost accounting is claimed to free the state from paying subsidies and to give enterprises limited commercial freedom. They can engage directly in foreign trade without going through foreign trade organisations. They can dispose of output in excess of the planned requirements, at negotiated prices. The weakening strictures of the plan should gradually mix with the incentives and disciplines of the market.

But this attempt to pursue eco-

nomic reform through a grass roots transformation of Soviet industry has to be set in its wider economic context. Three Soviet economies are affected by the reforms. First, there is the privileged planned economy. Defence, shipbuilding and machine tools, for instance, have a special status in the planning system. The state closely controls these sectors maintaining a degree of order and efficiency.

Second, the ordinary planned economy is a mixture of planning, markets and barter. Plans are often changed ad hoc and depend largely

on bartering between enterprises and ministries. It is commonplace for enterprises to claim supplies well in excess of what they need. Skorobod, the Leningrad shoe amalgamation, has 30,000 sq m of storage space, almost as much as its main production area, to accommodate six months of stock in some lines because supplies are so uncertain. But over-estimating supplies serves another purpose. For the third Soviet economy is a purely barter economy, in which supplies are paid for in kind rather than with money. It is independent, unregulated, unplanned and un-

counted for by state statistics. This grey economy extends from the black market into the state sector in which, for instance, metal has become a currency. Vast inventories of metal are used to trade with other enterprises to procure scarce supplies. Enterprises are also increasingly paying their workers with services in kind, housing, cars, holidays and child care, rather than roubles which cannot be spent.

A large part of the Soviet economy is like a quasi-medieval economy, based on exchange of goods in kind, in an inefficient market, which operates without published

prices. It is run by powerful industrial fiefdoms, rather than central planners.

What progress has cost accounting made in reforming both the planned and barter economy?

Cost accounting is commonplace, with managers proudly proclaiming that they receive no subsidy from the state. But it falls well short of independence. Most output and supplies are set by state orders, which limit how much enterprises can produce. In sectors with acute consumer shortages state orders are likely to be increasingly important. Self-financing is largely just a

bookkeeping exercise, as the costs and revenues which are being recorded are so distorted. Prices neither reflect the costs of production, the balance of supply and demand nor world market prices. The accounts of self-financing enterprises are a labyrinth of hidden subsidies.

Enterprises freed from the embrace of the organisations which monopolised foreign trade are rushing into the export market to earn hard currency. To prevent this exacerbating shortages in the domestic market the state is limiting rights to conduct foreign trade. The Moscow Number One Watch

factories, which exports 80 per cent of its output, claims to be completely independent of the state. It estimates it could sell 200,000 watches a year in West Germany.

Reform has also disrupted long established supply chains, leaving some plants hanging in the air. Given the incentive of keeping more of their profit many consumer goods plants have acted as rational monopolists, switching to higher margin, more expensive lines. There are reports of plants simply resisting state orders so they can sell as much as possible into a domestic market beset by shortages.

Self-financing, by disrupting lines of authority which kept relations between enterprises in ramshackle order, has provoked increasing industrial conflict, between enterprises, their customers and ministries. Viewed from industry, reform is essentially about how the monopolies which dominate the economy will be controlled and who will control them. Managers are keen to win as much control as possible.

Cost accounting seems to have created a dynamic for managers to start taking a more active, commercial approach to their enterprises. But this commercialisation is lim-

ited. Managers' support for different sorts of markets varies. Cushioned by acute shortages in the domestic market, they want the freedom to set prices. Without that the incentive to invest and innovate, which has received a limited stimulation with cost-accounting, will remain minuscule. But lurking within most enterprises is the threat of a massive leap in the price level. Most believe prices would at least double without state price controls.

Most managers also want a labour market, to allow redundancies and more pay flexibility, as the disciplinary foundation for improving productivity and quality. But few are ready for the consequences: most enterprises say they could get rid of between 20 per cent and 30 per cent of their workforce. They also want more freedom to sell into foreign markets. But few understand what it would mean to be integrated into an international division of labour or to meet shifting consumer demands.

Finally, enterprises are as lukewarm about a capital market, in which shareholders would exert discipline over managers, as they are about ministerial control. They want negative freedom from the state, rather than the positive freedom to become private property owners.

Given the years of stagnation and the economic jungle enterprises operate in, it is amazing how much some have achieved. In some areas - defence, watches, some textiles and machine tools - the Soviet Union can match world levels. It has a strong body of engineers, education is linked to industry and there is little if any cultural bias against working in industry. At some enterprises there is a genuine desire to use self-financing to improve performance.

Within the domestic economy industrial fiefdoms are being formed around large enterprises. A plant's prosperity will depend on joining a survival network of powerful enterprises. The other escape route is to climb onto islands of economic efficiency, formed around foreign capital, with links to international markets. These could offer some protection from the sea of economic disorder which is developing around them.

Reform has set off a process of fragmentation and disintegration within the industrial economy, without yet offering a new market basis on which relationships might be reconstructed. discipline enforced, incentives provided and efficiency increased.

SECURITIES MARKET

Capital idea wins support

AS THE Soviet Union bubbles with new ideas for reviving its economy, few float more frequently to the surface than a securities market. But how realistic is that in a country where ownership is so firmly in state hands? On the other hand, few events would more dramatically highlight the country's determination to change than the re-opening of the Moscow Stock Exchange.

There are certainly few ideological objections to the idea: the government seems broadly in favour. The obstacles lie more in the immensity of the task of economic reform, particularly in the pricing of financial assets and the establishment of ownership rights. Advocates of a securities market are to be found at the highest levels in the Kremlin. Professor Nikolai Petrakov, President Mikhail Gorbachev's personal economic adviser, argues that all state property should be transformed into shareholder property and traded on a stock exchange. Only that way, he thinks, can the Soviet Union's investment process become truly efficient.

"This shareholder form of property will make it possible to liberal-

ise the investment process which is highly centralised and rigid," he says.

Another advocate is Mr Victor Geraschenko, chairman of the State Bank. "Why should private individuals not be able to buy shares in companies?" he asks. To those who worry about the polarisation of rich and poor, he points out that even in the US, the proportion of unearned to total personal income is only 17 per cent and falling. "Most Americans have their wealth in their houses, not in shares," he says.

The case for a securities market is twofold. From the point of view of the enterprises, their transformation into joint stock companies (for which a draft law is being prepared) would reinforce their independence, from central control and, hopefully, sharply improve their performance.

They would have to weigh the cost of finance, and deliver value to their shareholders.

A securities market would also play an important part in re-shaping the Soviet economy's price structure, which is why some specialists believe it is more important

Advocates of a securities market are to be found at the highest levels in the Kremlin

than trying to make the rouble convertible.

From the investors' point of view, a market would give them somewhere to put money which currently sits idle in the State Savings Bank, adding to inflationary pressures. More than that, shares could

also be used to provide employees with much-needed incentives to take an interest in their work.

But how would it be done? Could the choice state enterprises be privatised, UK-style? The names of Aeroflot and Tourist, both hard currency earners, have been suggested as possible starters.

But the truth is that few Soviet companies are presently ripe for privatisation. One senior party official even suggests that at least 30 per cent of them are technically bankrupt, and a greater proportion would not be able to survive the rigours of the free financial market. Even if companies did not lose pure equity to start with, a stock market could be launched with them issuing debt securities. To this could be added trading in the growing stream of bonds which the government is being forced to issue to

finance its budget deficit. So the foundations of a market could be created quite quickly.

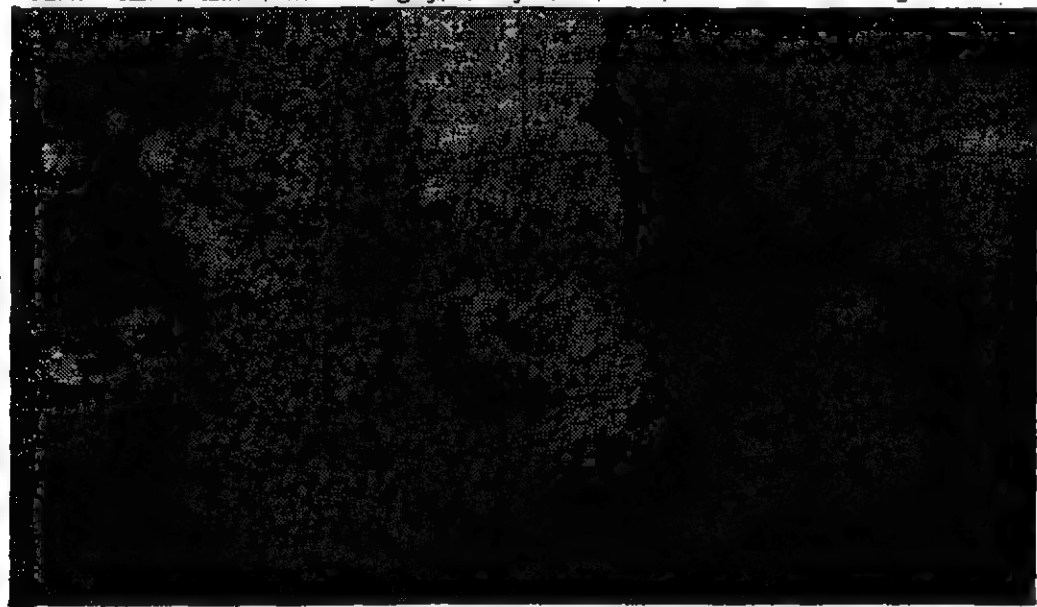
Mr Petrakov sees an important role for the new commercial banks. He says they could set like western investment banks, arranging securities issues, bringing them to market, and then trading in them to provide liquidity. Other people, though, point to the possible conflicts for banks who already have credit relationships with their clients. Mr Vladimir Milovidov, a financial services specialist at the Institute of World Economy and International Relations, says the Soviet Union might have to introduce a US-style Glass-Steagall Act to keep investment and commercial banking apart.

But mention of the words stock market is bound to send shivers down spines shaped by 70 years of communism. Mr Anatoli Milyukov, the deputy head of the Communist Party's social and economic department, and a securities market advocate, says: "The party must make clear that this does not mean a return to pre-revolutionary days."

David Lasec

"The COMECON countries must fit into the world market..."

* Miklos Nemeth, Prime Minister of Hungary, January 1990



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INDUSTRY

SOVIET UNION 14

Charles Leadbeater on a consumer goods crisis which shows no sign of abating

Perestroika passes over the shops

MR YURI Aphinogenov had just about had enough. It was Friday afternoon and the deputy director of Gostyni Dvor, the largest department store in Leningrad, was exhausted from another week in what he describes as the Soviet Union's consumer goods war. "The clients treat us like the enemy," he says.

Mr Aphinogenov and the 3,000 staff who work in the 275 year-old store on Nevsky Prospekt, the main shopping street, are at the sharp end of the extensive consumer goods shortages. The shortages are not merely an economic problem, they are vital to political stability.

Any government's legitimacy depends on satisfying consumers by delivering rising real incomes and standards of living. In the Soviet Union real incomes have risen but the standard of living is widely perceived to have fallen under perestroika, because production has failed woefully to keep pace with demand. Only those with unlimited access to hard currency can escape the crisis. Everyone lives within the confines of its stifling grip.

All the elements which have produced the consumer goods crisis are manifest through Gostyni Dvor's arcades. Every day 250,000 people tramp along Gostyni Dvor's 18th century floorboards in search of products. But only between a third and a half buy anything. Mr Aphinogenov says: "The rest just look. It is amazing because there is practically nothing to look at. Everything is sold as soon as it comes in."

This demand is the product of strong wage rises in recent years, with the move to enterprise cost accounting which has allowed managers more discretion over pay. Professor Andrei Orlov, deputy chairman of the USSR state commission for economic reform, estimates that there are as little as Rb1.15 worth of goods per ruble in circulation. In the first half of last year money incomes rose by 31.1 per cent while consumer goods production rose by 5.6 per cent.

The shortages are alarming. The Gostyni Dvor television shop, which was full of products in 1978, now opens for just two hours a day because there is nothing to sell. Mr Aphinogenov says: "Last year we sold 15,000 televisions, we could have sold 150,000." He says about electronic goods and all electrical goods are always in short supply.

A recent official survey found that only 106 of 989 staple goods were in regular supply. In September last year twaddlers were short of orders worth Rb8.4bn, including large quantities of washing machines, vacuum cleaners, fridges and wallpaper.

One cause is the chronic underinvestment in the light industry, the manufacturing good sector. Although it produces 14 per cent of industrial output and about 37 per cent of consumer goods, it only accounts for 4 per cent of the asset base of Soviet industry.

Price comparisons

For state and market prices in Moscow (Roubles per kilogram)	
	State
Apples (green)	3.00
Apples (red)	3.00
Beet	2.50
Cabbage	0.16
Carrots	0.32
Cucumbers	8.50
Glass	1.80
Grapes	4.00
Lamb	2.50
Mandarin	1.00
Onions	1.00
Pork	2.50
Potatoes	0.50
Tomatoes	3.00
Veal	2.50

Source: FT Survey (average ratio 5:6)

To correct this investment is being doubled to 1985 with the aim of almost tripling consumer goods production by the end of the decade.

But investment is only part of the problem. Mr Aphinogenov says: "Perestroika simply has not happened. Prices have gone up, quantities have gone down and quality has not improved at all."

The move to self-financing at manufacturing enterprises has severely disrupted supply chains to retailers. Profit seeking enterprises have rejected state orders for unprofitable production worth at least Rb9bn. Clothing manufacturers are switching from unprofitable lines for old people and children to more expensive goods to tap the great reservoir of unspent rubles. In the first half of 1988 the price of some new products and goods traded at contractual prices went up by at least 30 per cent. Quality has also deteriorated under perestroika. In 1988 309,000 Soviet washing machines were repaired under guarantee. In 1988 the number rose to 369,000. In the same period the number of tape recorders repaired under guar-

ante rose from 931,000 to 1,13m, about one fifth of annual production. Some goods are of such low quality they cannot be sold even with widespread shortages. Mr Aphinogenov says: "With glasnost people have become more aware of western standards so they have become more choosy."

One of the favoured cures for state enterprises' poor production volumes and quality merely exacerbates the public shortage of goods. It is virtually impossible to motivate workers to produce more by paying them more rubles, which they know are virtually worthless because there is nothing to buy. Most state enterprises are now offering to short circuit the consumer market for their workers by providing them with preferential access to consumer goods at factory shops. Passage, a store which stands opposite Gostyni Dvor, has started taking its new products direct to its supplier factories in an effort to persuade workers to produce above planned levels. Other elements of the economic reforms have made little impact on the shortages. On



Waiting game: Long queues and empty shelves are a common sight at many Moscow stores. Shop managers complain that they are "treated like the enemy" by angry customers

Joint ventures Mr Aphinogenov says: "Even when they are set up joint ventures will not want to supply state shops like this, they will want to sell through their own exclusive hard currency outlets."

Co-operatives contribute about Rb30m to Gostyni Dvor's Rb450m a year turnover. But they too have their problems according to Mr Aphinogenov. "Their products are more fashionable but their prices are high and because they use the same equipment and raw materials as state enterprises their quality is still very low."

The government has

embarked on a programme of converting defence and heavy industry production to consumer goods. These plants are meant to produce consumer goods equivalent in value to the amount they pay their workers in wages. This year defence conversion is meant to contribute Rb15bn to a Rb48bn increase in consumer goods production.

The Leningrad authorities recently imposed a ban on all non-residents buying large quantities of goods in the city. Belorussia, which produces large quantities of the Soviet Union's fridges and televisions, wants to keep all the growth in output over the next few years for the republic's residents.

Everyone believes the black market, the party and the retailers are working hand in glove to siphon off goods before they get to the shops. The move to self-financing at manufacturing enterprises means that people reliant on cheap, low profit margin goods, such as children and pensioners, will lose out.

Co-operatives are vilified for charging high prices for filling the "most profitable gaps" in the economy dominated by monopolists. State enterprises are attempting to buy and barter their way out of the market to provide their workers with scarce goods. People carrying bags from joint venture shops are eyed with envy and resentment.

Lenin's great slogan for the Bolsheviks was socialism is soviet democracy plus electrification. If perestroika is to succeed its slogan will have to be socialism is soviet plus television, cars, fridges, microwaves, stereos, videos, and almost every conceivable item of clothing.

Charles Leadbeater

MANAGEMENT

In the steps of Mr Lee Iacocca

IF ECONOMIC reform is to succeed it will have to nurture constituencies of support not merely in the party and among academic economists, but among the economy's grass roots. The attitude and skills of Soviet enterprise managers will be a vital factor. Is management a force for restructuring or an obstacle to it?

Management as it would be recognised in the West hardly exists in the Soviet Union. It has been partly political, dealing with ministries and local party officials; and partly administrative, implementing decisions made higher up and very technically biased - most enterprise directors are engineers. Running an enterprise has been about making things work within state controlled parameters.

Mr Nikolai Nikolsky, director of the recently formed independent Moscow Management School, says the most important complex Soviet managers suffer from is a fear of taking independent decisions. He says: "Our task is not to impart a vast body of knowledge. It is to change attitudes, to show them how they can guide a plant full of people, solve a range of problems, take independent initiatives to lead the enterprise rather than respond to orders from above."

Soviet managers seem eager to change. Mr Alexander Samsonov, director of the First Moscow Watch Factory and regarded as a conservative member of the Supreme Soviet, said: "We want freedom from all arbitrary interference from the state and a reasonable level of taxation. What is management philosophy I favour is Mr Lee Iacocca's."

They want freedom to expand export markets and prices to be set by the market. They show no dislike for the word "competition". Mr Yevgeny Matchinsky, director of the Association of Business Co-operation commented: "Working for profit is far easier than living with the current reality."

There is a widespread desire for a labour market which would be the foundation for improving labour discipline, productivity and quality. Mr Nikolai Poyasov, head of foreign economic relations at the giant Skorohod shoe manufacturing amalgamation, said: "Workers know that if they are dismissed they can get another job at the same rate of pay. We still cannot pay enough to people who put in good work. Without a labour market we will not have a mechanism to improve quality."

On the face of it perestroika has unlocked managers' ambitions to develop their enterprises. Growing contact with foreign companies is opening new ideas about product development, technology and working practices. Whatever happens in debates about economic reform at the top seems to have created the beginnings of a managerial dynamic at the bottom.

But the desire for freedom is not necessarily reformist. For what is going on in Soviet industry is a struggle to work out how and who will control its monopolies. It is quite natural for monopolies to want as much freedom as possible to set their prices and output.

So while most managers support the market in general they are hazy about the role that private property and a capital market might play in enforcing managerial efficiency if state control is dismantled.

Even leasing enterprises from the state is problematic. Mr Yuri Chernichkin, deputy director of the Source brewery in Minsk, said: "We have to be very careful about leasing. Tax rates would have to come down considerably for it to be profitable, and we still rely on the ministries to help organise our supplies."

In such a monopolised economy marketing and advertising are still largely unknown and distrusted. One British company got some of its Soviet partners together to discuss how to market and advertise a new product. The general view was that if a product needed advertising it was not very good. If it was good it would sell anyway. The group decided they would form an association of USSR producers. "What is the point of that?" asked the British manager. "To stop anyone else making the product," came the reply.

Management education has started to respond to rising demand for new skills. Mr Nikolsky's school is one of about 10 which have sprung up across the USSR. It is targeted at managers under 35 years old who could be plant directors. It receives seven applicants for each of the 144 places available a year. Each place costs Rb3,000.

The state system, in which enterprises have a strong role, is also changing. The Institute of Economic Science in Minsk, which teaches 8,000 full-time and 6,500 part-time students a year for future jobs in enterprise management, has introduced courses on international economics and electronics.

Leninist ideology still runs a deep course through management. Even the latest Soviet management text books start with Marx and end with round denunciations of bourgeois economists' criticisms of the Soviet price system.

Mr Ivan Lemachevsky, the young head of economics at the Minsk Institute, explained that in spite of the changes the goal was still to prepare managers for a socialist economy. "It is an economy free from bureaucrats, exploitation, unearned income and labour alienation. The goals of 1917 are still relevant. We have to develop our own way, whatever variant develops will be based on the Leninist heritage."

Charles Leadbeater

A glimpse of what's in store

PASSAGE, one of Leningrad's largest clothing shops, offers a glimpse of what might be in store for the Soviet consumer if reform is successful.

Like its near neighbour Gostyni Dvor it suffers sharp shortages. Mr Gennady Serov, the director said: "Last year we sold Rb40m worth of shoes, we could have sold Rb400m worth at twice the price."

But while Gostyni Dvor is a state shop, Passage was the first Leningrad retailer to move to self-financing. The difference this independence has made to Passage's ambitions is striking. While Gostyni Dvor's management sees little alternative to labouring under pressure from consumers, ministries and monopolistic suppliers, Passage plans to transcend retailing.

Passage was built in 1948 as an elegant, arched arcade. Mr Serov wants to return it to its former glory and exclusive social position, providing high quality goods as prices to match. The arcade will be refurbished for the first time for scores of years, and decked with palms.

In April the management will receive a report which should lead to the store's computerisation by the end of next year. At the moment, in common with most Soviet enterprises, everything is done on paper.

The management is discussing possible manufacturing joint ventures to stimulate production of high quality goods and to earn hard currency from exports with which it could import foreign goods. These will be sold at a special hard currency store it plans to open.

It is entering barter deals with foreign suppliers trading goods such as watches, lace and linen which can be sold abroad.

If also plans to set up a mail order shop in the store to allow customers to purchase foreign goods through Passage. The hard currency profit will be recycled to provide more foreign goods directly.

A "commercial shop" will be opened where goods in short supply would be bought from suppliers and sold to customers at unregulated market prices.

Mr Serov also wants to end the Soviet system of three queues per product which forces a customer to queue to choose an item, move to a second queue to pay for it and then return to the original queue to pick up the purchase. Already 84 per cent of

Passage's sales are through self service.

Mr Serov says: "The queuing system is archaic. But unfortunately the store is designed for that system. If we did away with it in one fall swoop we simply could not maintain security."

However, even Passage holds out little prospect of a speedy improvement in customer service.

Mr Serov says: "When customers are buying for goods and they treat you as scapegoats for the consumer goods shortages it is very difficult to provide any decent service."

"Service will only improve when the shortages end and there is more choice, then people may need service and our staff will have the chance to provide it."

Charles Leadbeater

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JOINT VENTURES

In the realms of a fairy-tale

MR STEPHAN Pachikov, the director of the Paragroup computer software joint venture in Moscow, has some advice for foreign investors. "They should all read Lewis Carroll," he says. "This economy is like Alice in Wonderland."

Many of the joint ventures which have been formed over the past two years are more like entrepreneurial fairy tales than industrial realities.

Joint ventures, a key element in the economic reform programme, are meant to give Soviet enterprises access to the management expertise and technology of capitalist economies, to boost exports and ease industry's integration into the international economy. The policy commands the support of technocrats like Mr Nikolai Ryzhkov, the Prime Minister, as well as full-blown reformers, partly because it is not new.

The question hanging over joint ventures is whether they can go beyond the traditional approach, in which western management and technology were to be adapted in the name of perfecting socialism. Soviet enterprises need deeper relationships with foreign partners not just to fill in the technological gaps in their products and processes, but also to move from formal self-financing to a more thoroughgoing commercialisation of their operations. The economy needs well-run joint ventures because without them its role in the international industrial division of labour will remain largely confined to raw materials and low value-added goods.

The results of legislation since 1987 have not been impressive. According to the Association of Business Co-operation in Moscow, which organises joint ventures for a group of large Soviet enterprises, about 6 per cent of the 1,200 joint ventures registered are operating. About half of these are export oriented but many are simply legalised import-export operations.

Mr Yegor Matchilsky, the association's director general, comments: "What have joint ventures brought us? A few shoes, but that is about it."

As yet joint ventures form a very thin ring around the core of an economy which remains largely isolated. If they are to revitalise industry they will have to succeed at enterprises

such as Skorohod, which runs the largest shoe factory in eastern Europe. It has signed five joint ventures, with six more under negotiation in an effort to improve its much lamented record for poor quality.

If joint ventures are to help improve the performance of the core they will have to achieve a double integration. First they will have to find a place within the international market and its division of labour. Second, they will have to be integrated into the rest of the Soviet economy. At the moment conflicting aims and cultures, inconsistent legislation and uncertainties over the

reputation of the state make it difficult to achieve both. Mr Matchilsky said: "Foreign investors mainly want to sell into the domestic market, but

Many joint ventures formed in the past two years are more like entrepreneurial fairy tales than industrial realities

the government wants to push them towards exports. However, it is difficult to export to world levels using Soviet equipment and supplies."

Even if a joint venture wanted to use Soviet suppliers there is a problem. Their freedom from the system of state orders also means that they have no guarantees of supplies in an economy where the turbulence of reform is disrupting already creaking supply chains. Nor do they have the right to sell through Soviet shops. Thus joint ventures usually sell through their own exclusive outlets.

So joint ventures are encouraged not to integrate with the rest of the economy but to establish little industrial islands protected from the sea of inefficiency and state controls around them.

Mr Nikolai Poyashev, Skorohod's head of foreign economic relations, says the development of joint ventures has put managers under strain. "Three years ago we did not do any of this. It has required a lot of training. Managers' horizons have opened up but we still have problems to overcome."

But according to Mr Vladimir Tyurin, general director of MCS, a computer assembly and distribution joint venture

between the Ministry of Merchant Marine and ICL, the British computer manufacturer, the problems are not all created by the Soviet side.

Mr Tyurin said: "Western managers do not trust their Soviet partners. They are just in the short term to make a quick profit."

MCS is an unequal partnership he says because ICL makes a profit from final sales in the Soviet Union but also on the price it charges MCS to import the original kits.

Mr Tyurin said: "Foreigners think this is an underdeveloped market. ICL thinks it can sell its old technology here for a handsome price. But we could buy the elements of this ICL computer in South Korea at half the price. The British partner has to drop its imperial

attitude or it will find this relationship will reach a dead end."

Mr Matchilsky concurred: "Many foreigners have not come up with the investment they promised. Quite a lot of companies want a stake in what is going on without investing anything in it."

To avoid this companies like Paragroup, the Moscow software house created six months ago, have sought a partner, which would provide start up finance and marketing in the West but little else.

However, establishing an international software house without a convertible rouble is easier said than done. The impressive team of software authors Mr Pachikov has assembled could all be earning thousands of roubles a month as freelance programmers supplying Moscow's software black market.

Motivating them requires paying them in hard currency. But that is not allowed. So Mr Pachikov has had to devise two financial conjuring tricks to reward his staff. The company has opened a corporate account for each programmer, into which it pays 20-40 per cent of Paragroup's export earnings.

When the account accumulates more than \$3,000 Paragroup gives the programmer a company Mastercard which he can use at Moscow's hard currency shops and restaurants.

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TRADE UNIONS

A tough transition

THE EXAMPLE of Poland's Solidarity has been beguiling but confusing. It is the exception among trade union movements in the de-communistic communist world: not like it has happened since, nor is likely to.

Indeed, even in Poland, Solidarity has not replaced the once-official union movement, OPZZ. The latter claims 5m members to Solidarity's 2m. Elsewhere the official unions are finding new leaderships, adopting newly confrontational attitudes towards the state and enterprise management and employing new rhetoric.

But they are not in any serious way being eroded by "free" union movements. The unions look like one of the instruments of the old regime which can metamorphose into an interest group within the new, in part because they can express, and are already expressing, a working class distrustfulness of the intelligentsia and pro-marketisers who are in the leadership of change.

The Soviet All Union Council of Trade Unions (AUCU), with 142m members in 33 branch unions, an income of Rb28m a year and formally the most powerful union movement in the world, will be part of this scheme of things. It has the organisation, resources and experience to make the transition from a body which transmitted management and party orders and provided social security, holiday and other benefits, to one which will habitually occupy the labour side of a negotiating table.

The shift will not be smooth, and rebellions are already evident. But the AUCU is unlikely to lose a commanding place within the working class, even if it will increasingly have to adapt its structure and reflexes in order to co-opt those among the workers who will challenge this or that part of "the system", initially from the outside.

That is the task on which it is now engaged. The unions' strikes of last year threw up a new leadership which managed to wrest from the government huge concessions. Some of these leaders will, later this year, assume the leading posts in the official union of miners. Yet the miners were not the first. In 1988, the fishermen's union had objected that the

conditions of work of their members called for a new approach. The union sacked its old leadership and demanded more autonomy. Now, the baggage handlers want independence from the air workers union.

As the AUCU's structure moves to accommodate new pressures from below, so it seeks to absorb the new pressures from above. From the Sixth Plenum in 1987, the union has been formally committed to independence from the Soviet state and the Communist Party. Now, as the party strips itself of exclusive power, it begins to look about for bargaining partners other than the Party.

Mr Yegor Yurgens is deputy head of the AUCU's international department. He is one of the many youngish men you now meet about Moscow, dispassionate, a little like a policy analyst in New York or Paris, right down to the barbs tucked beneath his desk. This is his view: "We are getting

closer and closer to traditional unions of the western type. We must see what these parties offer from the point of view of workers."

"We can go along with much of what perestroika offers. If perestroika is the democratisation of society, including industrial democracy, and is for more freedoms based on collective freedoms, then we are for it."

"Perestroika also means hard work. But other aspects look threatening - the emphasis on profits, for example, could mean a new Taylorism (disciplined repetitive labour) with no redress or control. We think the co-operatives will sooner or later have to go for profit maximisation, which will mean cuts in the now high salaries and a worsening of conditions. And they are not even taxed properly!"

Already, the unions are fighting on "issues" in a way they have not, or have not had to, before. Last month, a raise in the cost to enterprises of diesel fuel sparked off threats

of strike as unions feared that the extra costs to the plants would come out of their members' wages funds.

The Finance Ministry backed down and promised to compensate the enterprises for the price rises one for one. It showed, again, how timorous this government is on challenging workforces - especially so soon before the republican elections. But that is the effect of democracy, on both sides.

Indeed, the unions' emergence as a "conservative" - that is, anti-market - force in society is wholly to be expected. It is not surprising that Soviet unions should, as democracy tries to take root, become like other union movements. They should now take lessons from the British Trade Union Congress and (in the case of the unofficial leaderships) the American AFL-CIO; and they should try to bully governments and enterprises (who must learn to bully back).

John Lloyd

Making labour work

THE quality and motivation of labour is one of the most serious and intractable problems facing the Soviet economy.

Mr Alexander Samsonov, director of the tightly-run First Moscow Watch Factory, attributes much of the 68 per cent increase in labour productivity in the past three years to a reorganisation of old fashioned labour discipline.

But much remains to be done. "Our people want hard currency but they do not understand what it means to be responsible for their own work. It needs a complete revolution in their consciousness. The main thing is just getting staff to work harder," he says.

In some areas productivity gains have to be won by reducing the industrial workforce. In Belorussia, for instance, industrial output has grown by 30 per cent in the past five years. For the first time this has been achieved with a decline in the industrial workforce of about 5 per cent.

However, there remains considerable disguised unemployment in the economy. Enterprise managers generally say they could get rid of between 20 per cent and 30 per cent of their workforce.

Most Soviet managers believe it will be impossible to instill more discipline, increase productivity and improve quality without a labour market.

But Mr Samsonov warned: "Our state has always provided for people. Now they are informed that their prospects are their own responsibility. People know that if we start to work like a western company there will be unemployment and they will not like it."

In spite of high-level criticism of "wage-leveling" and some early experiments, pay flexibility and differentials are limited.

Pay is still set around centralised norms, although in recent years works collectives have been pushing managers to use the limited freedom of self-financing to

raise pay. This has partly fuelled the strong increases in real earnings which have exacerbated the consumer goods shortages.

Bonuses linked to plan fulfilment are an institutionalised part of the system which seem to have little impact on motivation. Joint ventures and co-operatives, which have more flexible pay scales, are whittling away at the system. Managers of state enterprises complain that co-operatives have poached skilled staff, most of whom go because of the prospect of making healthy profits.

The most significant change of recent years is the way enterprises have extended their role as providers of consumer goods and social services for their staff. Under self-financing, enterprises have been allowed to set up unregulated post-tax social funds, with which they purchase goods and services for their staff.

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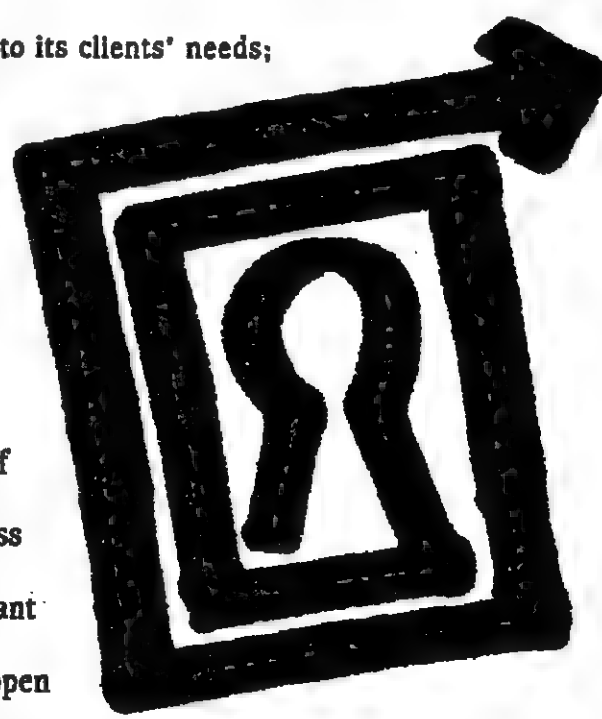
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INDUSTRY

SOVIET UNION 16

BELARUS TRACTOR PLANT

Slow starter

A BITING wind was driving snow into the faces of the workers hurrying from the Belarus tractor plant in Minsk. In the gathering twilight they trudged through the slush, leapt over enormous pools of muddy water in the plant's pot-holed roads, and dodged tractors ferrying parts between assembly lines. If this was the industrial vanguard of perestroika it looked bedraggled and dispirited.

For economic reform to succeed it has to be driven by engines of industrial efficiency. Judging by the Belarus plant, a classic Soviet factory, the industrial engines are ageing, cumbersome guzzlers of materials which are in constant danger of overheating.

The Belarus amalgamation, which was built in 1946 during the post war reconstruction of Minsk after the Nazi occupation which destroyed 80 per cent of the city, is a case study in the problems facing industrial modernisation. Judged by its yardstick very little has yet changed in the heart of Soviet industry and it will take several years of painful and costly restructuring to revitalise it.

The senior management team regards the reforms of the past few years with a measure of complacent confidence. Mr Georgi Katskevich, deputy director for commercial relations, candidly admits which a smile and a shrug: "The reforms have had very little impact on our operations."

The managers say the plant has been self-financing since 1978, freed from a lot of detailed state involvement in its affairs, enjoys strong export demand for its tractors and is committed to constant modern-

isation. Yet nothing is ever quite as it seems at a Soviet factory.

Belarus is one of the monopolies which dominate the economy. It is the only tractor manufacturer in Belorussia and it has a virtual monopoly in the USSR for the class of tractors it makes. Although it is self-financing the state is deeply involved in its activities. State farms are obliged to buy its tractors. In spite of the Soviet Union's prodigious production of about 600,000 tractors a year, the management at Belarus estimates demand at twice that level.

This combination of monopolisation and consumer shortages creates an enormous obstacle to economic reform. Working within the security of a sellers market there is no competitive pressure on Belarus to improve efficiency. The only pressure comes from the state. So although self-financing is meant to bring more freedom in foreign trade, the plant's exports are limited to 23 per cent of the 100,000 tractors it makes a year.

Belarus is an old fashioned manufacturer. Most western companies now concentrate on designing and assembling manufactured goods, concentrating their activities on a small range of core technologies. Belarus makes tractors from start to finish. In the manner of economies of scale it undertakes an array of activities, which western companies would contract out. The division of labour between enterprises is so under developed and ramshackle that Soviet factories are usually over-stretched and unwieldy.

There have been some moves towards simplifying its complex web of activities. Its engine plant was recently spun off to form a separate enterprise. Yet Mr Michael Kornichuk, the chief of the economic department, estimates the workforce of 25,000 could be cut by 30 per cent if the plant sub-contracted everything it need not do itself.

The threat of large scale redundancies also limits the plant's integration into the international division of labour. It is in discussions with Perkins, the engine manufacturer, over a joint venture.

The management says working practices are converging with the West. There is intent to be complete flexibility around the plant. It is aiming to create two grades of multi-skilled maintenance workers. In the past four years production has increased by 18 per cent entirely through higher productivity.

Managers admit that in the past three years there have been the first signs of labour unrest. One manager candidly admitted: "With our union set up it is relatively easy to dampen unrest. Who knows what would happen if we had an independent union like western plants."

During a decade in which western tractor makers have shed thousands of workers, employment at Belarus has declined by only 600 in the past four years. Like most Soviet factories there are a lot of people around. The 20,000 production staff work in a three-shift system to allow 24-hour a day production. Western automotive companies are only just attempting to introduce round



The Dornach farm equipment machinery factory in Minsk.

the clock working. In the West the intention is to make extensive use of highly capital intensive plants. At Belarus the aim is just to keep pumping out tractors in an effort to overcome shortages. The relentless drive for quantity makes it difficult to ensure quality. Quality is controlled by statistical process control at the end of each sub-assembly, whereas in western factories it is increasingly being written into production workers' jobs.

The drive for quantity also limits opportunities to invest in new technology. In the past five years more than 800,000 has been invested. The factory has more than 100 robots and automatic manipulating devices as well as computer aided design. A new plant is being built to make components for "tractors of a qualitatively new kind".

Yet the production technology still lags behind western plants. The pressure to maintain production means there is no summer shutdown for retooling and large-scale maintenance.

The cavernous final assembly hall houses what the management calls its two, fully automated, production lines. Under the old system parts were delivered to the line by teams of tractors. With the recently automated line they arrive through an integrated system of conveyor belts, although tractors still ply back and forth carrying gear boxes. In western plants automation is just reaching final trim and assembly. At Belarus it is still much further upstream.

Despising its involvement in western markets will be Belarus' salvation only at the cost of its crucial role in its integration into an international division of labour, to serve international markets, would demand a radicalisation of its activities, a new approach to marketing, quality and product development and thousands of redundancies which would raise the passions of its workforce at the cost of exacerbating domestic shortages.

At the same time it had to retool more than 60 per cent of the sector's own machinery was intended to be new by this year. Investment in the sector was due to rise by 80 per cent overall and by 250 per cent in plants producing precision instrument production.

Charles Leadbeater

MACHINE TOOLS

An ill-equipped hub

"INCREASING" economic efficiency, carrying out the planned structural improvements, resolving social tasks, strengthening the country's defence capability and its international prestige and developing trade with foreign countries - all these major problems are pulled together into a single tight knot by the results of the restructuring of machine building."

Thus it was that in October 1986 Mr Lev Zadkov, CPSU secretary for the defence industry, set the scene for an ambitious attempt to overhaul the hub of Soviet industry - machine tool manufacturing.

The machine tool industry, which employs about 16m workers at more than 9,000 research institutes, design bureaux and production enterprises, is responsible for more than a quarter of the country's industrial output. From the outset it has been one of the main targets of economic perestroika.

When the 12th five year plan was released in March 1986 civil machine tool manufacturers were faced with a bewildering array of tasks: a 43 per cent increase in production over the five years, vastly improved product quality, the rapid development of more sophisticated computer controlled machinery, and the scrapping of its own outdated equipment to assimilate a surge of investment.

The entire tool kit of economic reform has been applied to the sector: centralised commands, administrative rationalisation, public exhortation and decentralisation of decision making to enterprises.

According to the most authoritative western study of the industry this mass of ends and means has generated considerable momentum for change at the price of industrial chaos. The study, by Andrew and Bonnie Matsetich, says: "Machine builders are making headway in their efforts to improve productivity, reduce waste, produce higher quality goods, develop new equipment and reequip their production base."

But the study continues: "The effect of many of these initiatives has been to threaten the sector's stability. By altering traditional objectives and priorities and severing long-established lines of authority and communication, the leadership has thrown machine building into chaos."

It all began with the plan's stringent targets. The 43 per cent increase in output had to be achieved with a reduction in metal consumption of between 12 per cent and 18 per cent and a 20-30 per cent increase in the utilisation of equipment. Half the industry's output had to be replaced with new models.

At the same time it had to retool more than 60 per cent of the sector's own machinery was intended to be new by this year. Investment in the sector was due to rise by 80 per cent overall and by 250 per cent in plants producing precision instrument production.

By 1988 nearly 1,200 machine tool enterprises were covered by the Gosplan quality control system introduced in January 1987.

This array of targets was to be transmitted through a rationalised bureaucracy, which reduced the number of machine tool ministries from 11 to eight, including the merger of the Ministry of Tractor and Agricultural Machine Building and the Ministry of Machine Building for Animal Husbandry and Fodder Production and the abolition of the Ministry of Machine Building for Light and Food Industry and Household Appliances.

This was combined with the creation of national inter-branch scientific and technical complexes to break down the ministerial barriers which have hindered innovation.

This administrative kick start was combined with decentralisation to enterprises in areas of foreign trade, pay and retained profits, which were meant to create a climate for continual modernisation.

The demands on enterprises to increase production, raise efficiency and improve quality, while pulling down antiquated

90 per cent of machine tool imports estimates at least two thirds of its work still comes from state orders.

The outcome has been some improvement in the sector's performance. Production has risen by 24 per cent and the output of computer controlled machinery has risen by 37 per cent, says Stankoinport. The move to self-financing among the manufacturing enterprises which are the industry's customers has promoted more considered, innovative approaches to investment.

But the industry is still a long way from catching up with the West. Stankoinport estimates about 50 per cent of machine tools in the USSR are still manually controlled and a tour round any Soviet factory will confirm that some are ancient. The modern machinery suffers from a lack of sophisticated computers. Stankoinport officials admit the computer numerically controlled machines they sell abroad are relatively simple compared with many western machines. Mr Mikhail Yegorov, Stankoinport's deputy director general, says of the micro-electronics in Soviet machine tools: "They leave an awful lot to be desired."

Mr Yevgeni Filatovich, recently appointed to the newly created post of marketing director, says: "The industry is still used to responding to bulk orders from the state rather than individual customers. Attention to customer needs is poor, the product range is too limited and quality is too low."

In the past 15 months the leadership's attention has been diverted away from the sector by rising consumer shortages. Reform may be progressing at a slower but more sustainable and less disruptive pace.

This sweeping attempt to reform machine building yields two conclusions. First, Soviet industry is better off than it was under Brezhnev. Over the next decade machine tool manufacturers, with the growing involvement of western partners, will provide the rest of manufacturing industry with more reliable and technologically advanced equipment which should help to raise productivity.

Second, the modernisation programme will probably fail to close the gap with the West because it has left industry at a half-way house responding to both ministries and markets, pushed by incentives and pulled by disincentives, attempting to raise profitability with little discretion over costs or prices. If the industry stays in its half-way house it could well succumb to a more efficient form of the stagnation of the 1970s. To leave the half-way house the reforms will have to push the industry further towards the market and its consumers.

Charles Leadbeater

*Soviet Economy Vol 4, No 2, 1989

PLANAR

Industry's rough cut gem

The Planar scientific and production amalgamation in Minsk, which develops and produces sophisticated machine tools is one of the rough cut gems of the Soviet economy.

It suffers many of the problems which afflict Soviet enterprises, primarily that commands from the more than 10 ministries it deals with cut across the management's fledgling strategy for independence. But beneath that lies an enterprise with considerable potential.

All of Planar's output, and 50 per cent of its research is done to state orders and sold at prices which the state keeps at between a half and a third of world market levels. Planar's heavy spending on research and development, which accounts for about 15 per cent of its turnover, has been financed by the state rather than recouped in the price of its products. Thus all Planar's customers have been getting a disguised state subsidy in the price they pay for its machines.

Its move to self financing this year will only be success-

ful if its prices are allowed to reflect the true costs of production.

The enterprise has also been hindered because state orders and the weakness of its suppliers has forced it into activities it would not normally undertake. In the name of economies of scale it undertakes an array of activities, which western companies would contract out. The division of labour between enterprises is so under developed and ramshackle that Soviet factories are usually over-stretched and unwieldy.

The management also bemoans the lack of a labour market, which is seen as the foundation for improving motivation and quality. Mr Gennadi Kuzhnev, a Planar plant director, estimates the company could get rid of between 25-30 per cent of its workforce.

Mr Yevgeni Osegin, Planar's director said: "But we already have enormous disguised unemployment in this country, with people doing jobs which do not really exist or people who are in jobs but who do not want to work."

Given these difficulties and the extremely weak incentives for innovation in the Soviet economy, Planar's achievements are impressive. Mr Vas-

ili Zankovich, the chief engineer, said: "If we were integrated into the international economic system we could get rid of a lot of peripheral activities and focus ourselves. But our isolation has meant we have had to be self sufficient. Western companies would find it very difficult to produce our machines in complete isolation."

Given the inadequacy of Soviet computers, the machinery, about a fifth of it to manufacture machine tools, is impressive. Planar has developed its own pneumatic, linear stepping motor which can move parts in at least six directions. Mr Osegin says only Japanese machine tool makers manufacture a comparable machine.

The bedrock of Planar's innovative capacity is its strong links with local universities and its extensive training programme. About 20 per cent of the more than 10,000 employees are engineers.

It recruits about 60 graduates a year. Most of them will have been attached to the enterprise and engaged in practical work with it since the

middle of their six years at university.

The test for Planar is whether its ethic of innovation and technical prowess can be matched by a commercial management which is able to focus the enterprise's activities so it could become a specialist producer in the international market. The management is professional and determined. It is drawing up a six-year corporate plan which envisages sweeping changes.

One of the main uncertainties facing the enterprise is the future structure of its ownership. The managers want a collective form of private property which would allow the workforce to own the plant through an employee share ownership scheme.

Yet if Planar is to be successful there will have to be large scale job cuts. It also wants to bring in foreign partners through joint ventures.

Mr Osegin concluded: "We have to be integrated into the international economy. Serving customers must be easier than serving ministers."

Charles Leadbeater

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Charles Leadbeater unravels the bewilderingly complex method of accounting

Labyrinthine system in need of rethink

IF YOU find western accounts difficult to read, you had better draw a long breath before attempting to decipher a Soviet balance sheet.

Like so much else in the economy, accountancy has Leninist foundations. Yet if the economic reforms are to be successful, Soviet accounting will have to be transformed.

The principles of Soviet accounting have to be laid down by the planned economy. Profit has been less important than fulfilment of the plan's quantitative targets. Soviet enterprise accountants mainly satisfy ministries' demands for statistics rather than measuring the return on investment.

An accounting system designed to provide quantitative information, for centralised planning, has to become a system capable of providing financial information, for decentralised decisions based on profitability.

What are the problems foreign investors will face with Soviet accounts and what are the prospects for accounting reform?

The core of the profit and loss account of a Soviet enterprise will be sales, defined as cash received, against which are set a group of funds which record costs.

When Soviet managers talk of profit they usually mean "gross profit", that is cash received less salaries (the wages fund), the cost of materials and depreciation. This "gross profit" often sounds impressive but it is a long way from the final figure.

Bank interest, which is negligible, bad debt, losses through natural disasters and fines and penalties for breach of contract then have to be subtracted. The contributions to the reserve fund, which is designed to prevent an enterprise going bust, have to be subtracted as well as contributions to the investment fund. This yields a pre-tax profit.

The Soviet corporate taxation system is bewildering. Norms for tax rates in different branches of industry are set centrally but rates for enterprises appear to vary wildly according to profitability.

The post-tax profit is then consumed by further funds such as the pay bonus fund, the social fund, the workers' housing fund and so on.

There are several aspects of

the average profit and loss account which will present problems for foreign companies.

Soviet managers complain they have only limited freedom to transfer money between funds. If the electricity fund is underspent it is difficult to boost another fund for materials. Thus millions of unused roubles are sloshing around in enterprise accounts forming a large share of repressed inflation.

Some of the funds, such as the reserve fund which is worth 25 per cent of authorised capital and the investment fund, are obligatory, although industry managers may this year be allowed more discretion. Others such as the post-tax social welfare fund are discretionary. The more post-tax funds an enterprise has the lower the potential dividend for a foreign joint venture partner.

According to Mr Richard Lewis, of Ernst and Young the accountants, one of a small band of people who understand

the details of both Soviet and western accounts, stocks are routinely overvalued. They are included at the full cost of production including fixed costs and administration, rather than the direct costs of production.

Depreciation is also tricky. If the economic reforms are to be successful, Soviet accounting will have to be transformed.

Depreciation in Soviet accounts is a purely bookkeeping exercise. What matters is amortisation according to norms laid down by Gosplan in 1974, covering everything from buildings to computers. Amortisation of investment is not done by correcting the value of fixed assets but usually by a transfer of cash to the amortisation fund. Amortisation rates tend to be very low. Once an

asset is written off, amortisation continues to be paid to make up for the projected rise in the price of a replacement. According to Mr Lewis this also means that the average balance sheet becomes nearly impenetrable. As amortisation rates are low, fixed assets tend to be systematically overvalued. Local enterprises will often put a high value on equipment foreign managers would regard as next to worthless.

Intangible assets, which have become controversial in the UK in the past year, pose their own problems in the Soviet Union. The Marxist labour theory of value, which says capital is the physical embodiment of past labour, found no place for intangible assets such as know-how. The category of intangible assets was only created in May 1989. Establishing the initial equity base of an enterprise is also difficult according to Mr Lewis. This poses particular problems for joint ventures.

TAXATION OF CORPORATIONS

A pile them high policy

ACCORDING to Mr Vladimir Raevsky, deputy minister of finance, the taxation of Soviet state enterprises can vary between 2 per cent and 96 per cent of income. The ideological explanation for the variation is the enterprise's contribution to the Soviet republic against both failure and success. More important, however, is the conflict between the individual enterprises and branch ministries. The ministries are determined to keep enterprises as their branch plants by maintaining control over the money an enterprise earns.

The trick is to pile one highly variable and discretionary tax upon another. One such is the "self-financing" tax. This tax is a substitute for interest and dividends in a western economy. The problem is that the rate of tax can vary between 0 per cent and 12 per cent of the value of the capital employed, depending on the percentage points. (While capital is taxed in this way,

land is not, with taxation of land a purely local matter.)

Enterprises also pay Rhs900 per annum (R200 at the official exchange rate) for each production worker and Rhs900 (R200) for each person employed in administration. One aim of this tax is to decrease the top-heavy administration of Soviet enterprises.

After payment of taxes on capital assets and on employees, profits of the enterprises are divided between the state budget, the branch ministry and the enterprise itself. Taxation of profits is farmed out by the Ministry of Finance. It decides what each ministry will pay to the central budget and the branch ministries then determine the rates of tax that will cover their obligations.

Officially those rates depend on the profitability of each enterprise. In practice, the ministries decide what each enterprise should keep and the enterprises, for their part, try to resist their demands.

Since enterprises that enjoy political influence can defeat ministries, smaller enterprises are often subject to a higher rate of tax than larger ones.

Enterprises are also liable to a tax on transport, to a turnover tax, which is levied for every product and enterprise, and to payments to the social insurance fund. Not even depreciation belongs to the enterprise. A part goes to the relevant ministry and may be refunded at discretion.

Not surprisingly, this concentration of taxes gives huge power to branch ministries. Failure to introduce a simple, non-discretionary system of corporate taxation makes the idea of "self-financing" a joke. Such a reform is now under consideration by the Ministry of Finance, with a non-discretionary progressive tax on profits as its aim.

However flawed, the new system can hardly fail to be better than the present one.

Martin Wolf

Farmers' woes

IF ANY single sector is critical to the immediate success or failure of President Mikhail Gorbachev's perestroika, it must be agriculture.

Food shortages have been the most acute issue fuelling public dissatisfaction, with widespread rationing of many basic commodities like meat and sugar. The huge food import bill, to pay for Soviet grain, meat and butter purchases, absorbs desperately needed hard currency income which might otherwise be used for consumer goods imports or industrial equipment.

Not only that, agriculture is also the sector perhaps closest to Mr Gorbachev's heart. He made his name as a farming expert, first in his home region of Stavropol, then as the central committee secretary in charge back in Moscow. If anybody knows the problems, it is he.

It is all the more surprising, therefore, that the Soviet leader chose his colleague Mr Yegor Ligachev as the man to sort it out. He has no background in agriculture, although he has a reputation as an efficient administrator. More important, he is ideologically poles apart from his leader.

At the heart of Mr Gorbachev's attempts to overhaul the farm system is his vision that the peasant farmer must become "master of his own land". That immediately runs into the acute sensitive ideological area of land tenure, on which Mr Ligachev is an open opponent of anything which smacks of private property.

The result is that the poor benighted collective farm worker, still known as a peasant in the Russian language, has to face a whole conflicting set of political signals in deciding how to respond to the upheaval of economic change.

At the same time the local rural bureaucracy, from the Communist Party officials to collective farm directors, have no incentive to promote reforms which would eventually put them out of their jobs.

The Land Law approved by the Supreme Soviet at the end of February promises a multiplicity of forms of land holding, including tenancies, leasehold, co-operative land, and the right to bequeath land to one's children - but no right to buy

and sell land. However, the compromise has been furiously attacked by radical reformers.

Mr Ligachev sings a very different tune, in style if not in substance. For him, any change in land-holding is secondary, and the key issues are pumping more money and investment into the farms and the countryside, applying new technologies, building better storage facilities, and providing more tractors and trucks.

Meanwhile, Soviet agriculture continues to stagnate, with productivity far below international levels.

In 1989, the only significant increase in output was in sugar, up 11 per cent in response to the acute sugar shortage caused by illicit brewing of alcohol. Meat production, at 12.9m tonnes, was up less than one per cent. The same was true of butter and cheese. As for canned products, such as fruit and vegetables, their output actually fell by 3 per cent.

On the grain front the picture was slightly more hopeful, although only because grain production appears to have stabilised at an improved level: with a harvest approaching 210m tonnes last year, production has topped 200m tonnes for three of the past four years, ending years of wild fluctuation in output.

However, the harvest is still far below the plan target of 240m tonnes. In spite of the sorry record, the State Planning Committee has decreed

that grain output will rise no less than 16 per cent this year. Many believe these targets are hopelessly optimistic.

Critics see the whole direction of agricultural planning as another manifestation of deep-seated bureaucratic resistance to any real farm reform.

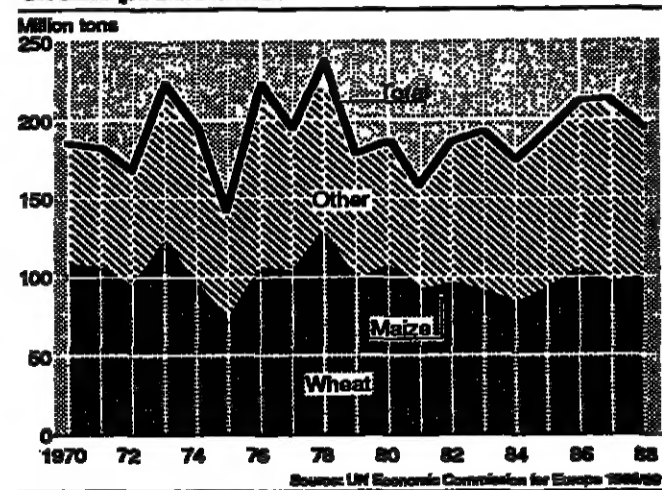
Mr Gorbachev has now brought in a real agricultural expert into the central committee, in the shape of Mr Yegor Stroyev, now a full secretary. He rejects the wholesale destruction of the collective farm system: the 13,000 kolkhozes should not be closed, but transformed into co-operatives and leasehold tenure, he says.

Then he argues that price reform is now essential, not least because the return on grain production, for example, is less than half the return on grain-fed livestock. The result has been a sharp drop in sales of grain to the state, to the lowest level for 15 years, causing havoc to the bread and pasta producers.

Yet at the end of the day, the reformers say, no piecemeal change will have any significant effect until radical property reform, with the open introduction of private property, is allowed. Which all comes back to the key ideological question, on which Mr Gorbachev and Mr Ligachev appear to be hopelessly divided.

Quentin Peel

Grain production



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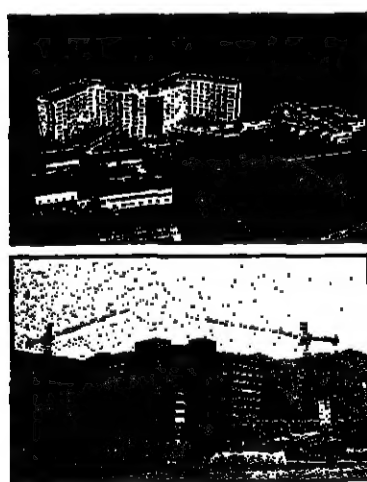
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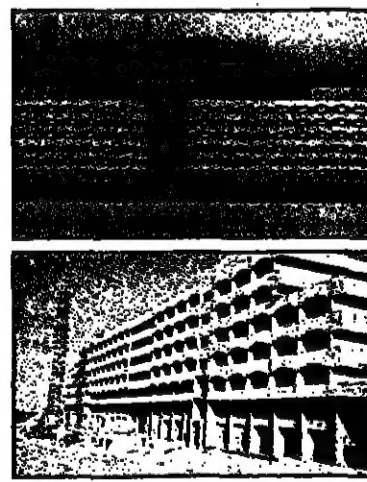
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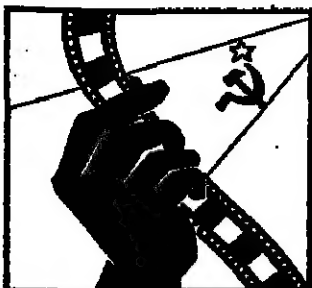
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CINEMA

Film makers are still obsessed with the past, writes Paul Winfrey

A mystery worthy of the screen

EVERY MORNING, Tolik awakes to the piercing sound of a recurring nightmare. In his dream, he pictures the famous battleship, Aurora, turning listlessly on the water to aim its enormous cannon on the Winter Palace in a scene familiar to every Soviet viewer from the pseudo-documentaries of their childhood.

Tolik's Aurora is different. With no warning, it explodes in his skull, filling his mind with shrapnel and waking him from his dream.

He rises slowly, opening first one eye and fumbling with an ageing reel-to-reel tape-recorder as he threads a tape to break the silence in his room. When he presses the button, no music comes out. Instead, it is the voice of a radio announcer informing listeners that "yesterday, after a short illness, Comrade Joseph Vissarionovich Stalin left this life."

Tolik dresses quietly and listens to the famous announcement of Stalin's death. It is a ritual, we learn later, which he repeats every morning.

This is the opening scene of Sergei Solov'ev's *Black Rose, Red Rose* (1990), a Soviet film released last month but it might as well serve as a metaphor for Soviet cinema in the age of perestroika.

After a brilliant beginning, film makers have got bogged down in the themes of the past, unable to find their footing among the new-found freedoms of perestroika. The result is an anomaly: now that censors have given film makers the right to say what they want, film makers are finding that in many ways they were more comfortable when they had something to fight.

Many people date the beginning of perestroika to the release of Tengiz Abuladze's *Repentance* (1987), a dark surrealist parody of the small-town dictator who resembles Stalin's henchman, Lavrenti Beria.

The humour is pointed and only loosely disguises the film's very serious purpose: an attempt to come to terms with pain and guilt left over from Stalin's times.

Vassili Pikel's *Little Vera* (1988) drew huge crowds when it was released, but the film contained explicit sex (then a Soviet first). Many went home disappointed — unaware that

the sexual offerings were meagre and the film's message brutally depressing.

Still, in spite of much audience disappointment, critics hailed Pikel's work as one of the best Soviet films of the past decade — a haunting vision of the senselessness of modern Soviet life.

In spite of its Soviet origin, Latvian Juris Podnieks's *Is It Easy To Be Young?* (1987), a stirring documentary about the anger and alienation of youth, remains one of the finest documentaries about young people's problems made anywhere.

These were good films but they appeared almost three years ago and perestroika has yet to top them. More recently, Soviet cinema has deteriorated into a hackneyed series of clichés unable to hold the attention of their audience.

Moscow critics have begun wondering out loud why perestroika can generate such good journalism and impassioned polemics could create such mediocre art.

What sensations there have been — like the release of Abuladze's *Repentance* and the publication of Anatoli Ryba-

kov's *Children of the Ark* — have come largely from works created in earlier times, when artists were still repressed and had to fight for the right to make anything.

Perestroika, for some reason, has been unable to produce its own metaphors. Why this is the case remains a mystery, although many feel the reason may be that artists have got too caught up in the political process itself. Certainly, many writers and film makers

proved they could grasp the essentials of perestroika faster than party functionaries.

As a result, they were elected in droves to the new parliament, where they have given many fine speeches but not, alas, written many fine novels.

Films, too, have often been thinly-disguised polemics, eager to show the director's sympathies, but lacking in the humane vision as the basis of all great art.

There have been tentative moves towards a freer distribution market. Last year the unions and the state committee organised a series of film auctions at which distributors bid for new films. Prices ranged from Rb12 per copy to more than Rb12,000.

"We discovered for the first time that there were lots of films that no one really wanted to watch and which did not even cover the costs of their production," said Mr Yerkamov.

Second, there are no telephone directories as we know them. The closest you will come is an invaluable publication called *Information Moscow*, available at some Intourist desks, at Collets bookshop in London, at the Soviet-Swiss joint venture Sadko in Moscow or direct from the publisher.

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If you can, follow the example of the more experienced international businessmen who base themselves at the World Trade Centre, the concrete complex built by Dr Armand Hammer on the banks of the Moscow River, diagonally opposite the Ukraine Hotel.

Many of the chambers of commerce, international airline offices and Vneshekonbank, the Soviet Bank for Foreign Economic Relations, are there.

On the second level at the top of the escalators is the Service Bureau which will send your telexes and fax messages, and make international calls. Thereby hangs another tale. Outgoing international calls from Moscow are charged at between three and five times the rate you would pay to call Moscow from the West from an automatic telephone. On regular Soviet phones you may have to wait six hours or more for an operator-booked call.

The so-called dollarisation of the Soviet Union has gathered pace over the past year or so. Foreign visitors can find many more services than they used to, but almost all payable in foreign exchange. Even though visitors can now benefit from a much more favourable exchange rate for their cash — 10 times the official rate — there is very little they can spend their roubles on. Having such a favourable legal exchange rate reduces any residual temptation you may feel to use the black market — unwise at the best of times.

If you do find yourself with a surplus, then one possibility is to get your Soviet partner to book a table or hire a car on your behalf. Then it should be possible to pay in roubles.

The choice of restaurants is improving all the time, although many now insist on payment in hard currency. Do not give in willingly — a compromise is to pay for the food in roubles, and the drink in dollars. Try U Piroshniki for Georgian food, U Yuzefa, a Jewish co-operative, Kropotkinskaya 34 — the first co-operative cafe in Moscow — or Glasgow, for an upmarket meal.

If none of those take your fancy, you can always queue at McDonalds in Pushkin Square. You can get a Big Mac in about one hour.

Ubiquitous black Volga cars can be hired in all the international hotels — at around

seven 'hard roubles' per hour. They are good value and an excellent way of reducing the stress of a busy schedule.

If you are not a Russian speaker it is wise always to check before a meeting whether your Soviet partners speak your language — the odds will invariably be on you to provide an interpreter. Book through your hotel in advance and expect to pay around 70 'hard roubles' a day, but do not hesitate to ask their help for making appointments, bookings and enquiries!

Of course the most important item is your visa, which officially now only takes 48 hours from receipt of the written invitation from your Soviet partner. Getting the invitation is what takes the time. However, it is now possible for a businessman to come as a tourist in order to find a suitable partner.

With the upsurge in international interest in perestroika, accommodation is at a premium in Moscow. Several new hotels are planned, but they will not be built until the rush is over. As a result, room prices for foreigners have soared, and you may have to pay at least \$300 for a room which anywhere else would cost half.

Hotel bookings can be made through a limited number of organisations: in London, Intourist, Thomas Cook or Barry Martin Travel, a company which specialises in business travel to the USSR. If you still have no luck, then try Air-tours, the only joint venture travel agent in Moscow, which can find rooms in hotels not normally open to foreigners.

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Quentin Peel and Bobby Meyer

BUSINESS GUIDE

Test of nerves

DOING business in Moscow reminds one of the 19th century recipe for game stew which starts with the sound advice: "First catch your hare..."

In the case of the foreign businessman who has decided to tackle the Soviet market, a similar approach is appropriate. It is a question of putting aside sophisticated marketing techniques and equipping yourself psychologically for solving some basic problems.

The key question is how to begin to set up meetings with Soviet foreign trade organisations, ministries and other possible future business partners. It is not such a silly question as it sounds.

There are two main obstacles and it helps to be aware of them at the very outset. First, central switchboard systems are unknown in the Soviet Union, so everyone has a separate telephone number. But if someone is not at his or her desk for a day, or two or more, then the telephone will not be answered, as many employees do not seem to have secretaries. Do not pin your hopes on a number which does not answer — look for alternative contact numbers in the same organisation.

Incidentally, the same is true of hotel rooms: you will have a direct phone number, whereas the hotel switchboard cannot be relied on to take messages or pass on calls (with the honourable exception of the newly-renovated Savoy Hotel). So if you expect anyone to contact you during your stay, give them your direct number — and be prepared for calls after midnight.

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Charles Leadbeater on the cinema industry

Lack of dynamism

linism were deeply ingrained within the industry, from the way Goskino, the state film committee, selected films to the way directors conceived them. It will take a long time to rid the industry of them.

That is the goal of a far reaching restructuring plan drawn up by the union. Under the old system Goskino used to select which films to make, vet the screenplay, chose the actors, calculate the budget, appoint the crew and then oversee the film's eventual screening.

The plan, which was called for by the 5th Congress of Film Makers in 1986, is a case study of the bureaucratic opposition to reform. After a lengthy struggle with Goskino, leading film makers met Mr Nikolai Ryzhkov, the Prime Minister, in May last year to present their plan in the presence of all the relevant ministers. The

Prime Minister called for the final plan to be presented by the ministries a month later.

Under the new system, which is being formally introduced this year, the union will take responsibility for supervising the industry. Goskino is intended to take a subordinate role. All the USSR's 39 studios will be given freedom to choose which films they will make and who to employ on them.

One of the most important aspects of the plan is to create a labour market for creative staff. Technical staff like engineers and administrators will be full time employees of the studios. But creative staff like cameramen and actors who used to be full time employees of studios will in future be employed on contracts for the duration of the film's production. Their salaries will be linked to the film's profitability.

Mr Ryzhkov is considering a union proposal that all studios should become co-operatives by 1994, when the last remnants of the old system should be completely eliminated.

But this transformation in production is unlikely to transform the industry unless there are complementary moves among distributors and cinema halls.

According to the union, there is considerable scope for financial disaster in the industry. Mr Yerkamov says: "Some studios must go bankrupt."

Indeed, some of the 10 separate studios created at Mosfilm are already technically bankrupt, according to the union.

This move towards self-financing among studios is only the first stage. Last month the union set up an association of independent co-operative film makers to act as an innovative, competitive force.

The union has identified another dilemma familiar to broadcasters and film makers in the West. Without having got anywhere near creating a free market it is already worried by creeping commercialisation.

"To operate in the international market we have to make popular commercial films. But if we let commercialisation take over that will be the end of cinema," says Mr Yerkamov

Some invested in Art. Others in Heirlooms. Most just Blue it.

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